Minnesota

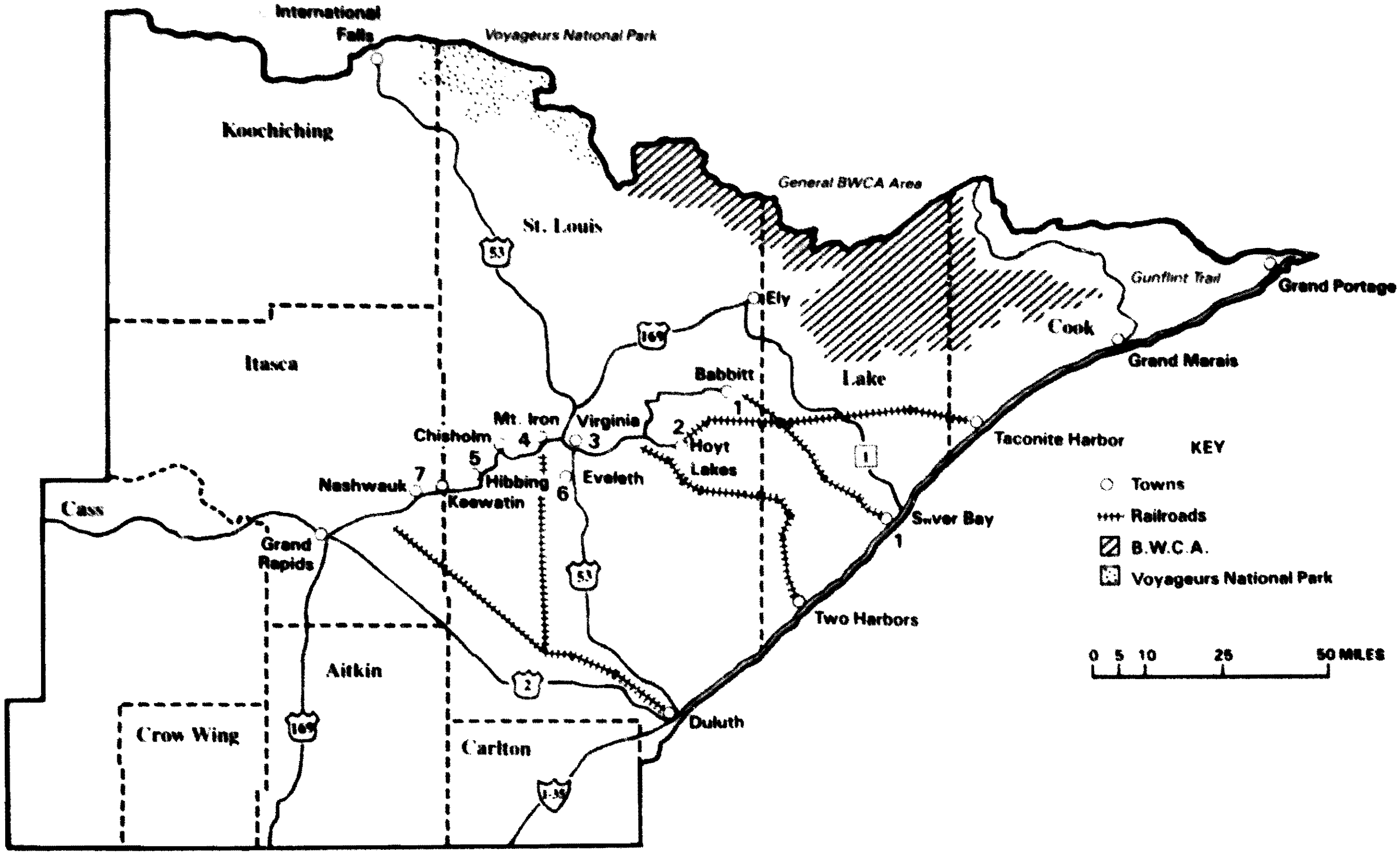
MINING TAX GUIDE

partment of Revenue
Minerals Tax Office

NOVEMBER 1988

MAP OF NORTHEASTERN MINNESOTA

TACONITE COMPANY LOCATIONS, OWNERSHIP AND GENERAL INFORMATION



	Effective Capacity (million tons)
1) RESERVE MINING COMPANY	a
2) LTV STEEL MINING COMPANY Pickands Mather Services, Inc., Managing Agent Owner: LTV Steel (100%)	8.0[b]
3) MINORCA PLANT Owner: Inland Steel Mining Co. (100%)	2.5
4) MINNTAC PLANT No Managing Agent Owner: USX Corporation (100%)	12.5
5) HIBBING TACONITE COMPANY Pickands Mather Services, Inc., Managing Agent Owners: Bethlehem Steel Co. (70.3%) Pickands Mather & Co. (15%) The Steel Company of Canada, Ltd. (14.7%)	8.1
6) EVELETH MINES* Oglebay-Norton Co., Managing Agent Owners: Eveleth Taconite Co., 2.3 million tons Rouge Steel Co. (Ford) (85%) (31.7%) Oglebay Norton Co. (15%) (18.4%) Owners: Eveleth Expansion Co., 3.7 million tons Armco, Inc. (56%) (35.1%) Stelco, Inc. (23.5%) (14.8%) Oglebay Norton Company (20.5%) (see above)	5.8
7) NATIONAL STEEL PELLET COMPANY M. A. Hanna Company, Managing Agent Owner: National Steel Corp. (100%) National Steel Ownership: National Intergroup (50%) Nippon Kokan KK (50%)	4.7
TOTAL EFFECTIVE:	41.6

[a] Reserve Mining Company at the present time is shutdown. If a new owner is found, it could operate at a 3 to 4 million ton capacity.

[b] LTV is continuing to operate LTV Steel Mining Company under Chapter 11 of the bankruptcy laws.

* The second percentage denotes the percentage of ownership of the total company.

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The Minerals Tax Office wishes to give thanks and credit to the Minnesota Department of Trade and Economic Development, Minnesota Trade Office, for the design concept of the front cover.

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INTRODUCTION

HISTORY

The processing and auditing of tax reports, collection and distribution of tax payments, and the general administration of tax policy for mining taxes collected by the state were historically handled by different sections of the Department of Revenue in St. Paul.

The ad valorem (property tax) portion of the taxation of the mining industry was the joint responsibility of the Department of Revenue and the University of Minnesota, School of Mines. The University was responsible for estimating the ore reserves and the Department of Revenue computed the value. The system lacked accountability since neither party had full responsibility for the resulting values.

The Minnesota legislature mandated that full responsibility for estimation and valuation of iron ore reserves be assumed by the Department of Revenue. The Department of Revenue assumed full responsibility beginning with the 1976 assessment. This became the Office of Ore Estimation, which was established in Eveleth at that time. All other tax responsibilities were later merged with the Office of Ore Estimation to become the Minerals Tax Division.

The taxes, administered by what is now the Minerals Tax Office, are the taconite production tax, occupation tax, sales tax, royalty tax, iron ore ad valorem tax, unmined taconite tax, and taconite railroad gross earnings tax. This took place in 1978, so the Minerals Tax Office is celebrating its tenth (10th) anniversary this year.

OUTLOOK

Other Minerals

The outlook for the discovery and mining of minerals other than iron ore or taconite is promising. The legislative changes in the tax laws and the administrative changes in the leasing of state lands are recent steps taken to encourage exploration for other minerals.

Approximately 30 companies are currently exploring in Minnesota for economic deposits of a variety of minerals, such as gold, silver, platinum, titanium, copper, lead, zinc, nickel and others. Some deposits of significance have been found, but no announcements of an economically viable deposit have been made.

The Minerals Coordinating Committee, a group of state and university agencies, and other governmental and private organizations are working to hasten the day when a non-iron ore mine begins operating in Minnesota.

Taconite

Since the Minerals Tax Office has been in existence, the mining industry in Minnesota (and the nation's steel industry) have gone through many changes.

The all time record for taconite production in Minnesota was established in 1979 with over 55 million tons produced. Total taconite production in Minnesota fell to 23 million tons in 1982 and 25 million tons in 1983 during the worldwide recession in the steel industry.

During this period, the world price of ore was decreasing and the Lake Erie selling price of Minnesota ore was increasing from $42 per ton in 1979 to $56 per ton in 1983. Minnesota ore was becoming noncompetitive due to the increasing selling price, reflecting increasing production costs.

Through the cooperative efforts of industry, labor, suppliers and the state, significant cost reductions have been achieved in the last five years. Although the industry, its employees and the Iron Range area endured some difficult times, the taconite industry appears to be emerging as an efficient, stable, low-cost producer.

	1979	1983	1987
Lake Erie Value:	$42.21	$56.49	$37.46*
Beneficiation Costs:	16.64	26.81	15.77
Mining Costs (incl. tax):	4.31	5.32	4.96
Production Tons (million):	55,333	25,173	32,109
Employment (thousands):	14,000	6,500	5,500

*Mine Value of $24.27 after May 1, plus former transportation allowances of 13.19.

The variation in costs reflects the high fixed costs in taconite production, resulting in dramatic reductions in the production cost per ton when production increases significantly.

The 1988 figures are expected to show significant reductions in production costs, due to a nearly 25 percent increase in production from 1987 to 1988. Taconite production during 1988 is expected to reach 40 million tons, the highest level since 1981.

The shift in Minnesota's mining industry from iron ore to taconite began in the late 1940's and early 1950's. The shift is shown in the following table:

TABLE 1
THE CHANGING STRUCTURE OF MINNESOTA'S IRON ORE MINING INDUSTRY

Year	Total Production (000's of Tons)	Percent of Total Iron Ore	Percent of Total Taconite	Total[1] Employment (000's)
1955	67,893	98.0	2.0	15.7
1960	57,425	76.7	23.3	16.6
1965	52,466	63.8	36.2	13.0
1970	56,520	37.5	62.5	13.3
1975	51,067	20.1	79.9	12.8
1980	45,280	4.9	95.1	13.8
1981	51,033	3.3	96.7	13.9
1982	24,234	3.3	96.7	7.7
1983	26,024	3.3	96.7	6.5
1984	36,538	2.3	97.7	7.4
1985	34,730	4.2	95.8	6.7
1986	26,573	4.2	95.8	5.4
1987	33,182	3.4	96.6	5.0
1988 Est.	40,800	2.0	98.0	5.0

Minnesota's share of total U.S. production has been consistently greater than 60 percent. Minnesota's share of total world production has been steadily declining. In 1950, Minnesota produced over 25 percent of the total world production of iron ore and taconite. By 1960, this had dropped to just over 11 percent and, in 1980, to 5.2 percent. It appears this new lower level may become permanent.

TABLE 2
MINNESOTA'S SHARE OF U. S. AND WORLD PRODUCTION OF IRON ORE

Year	Minnesota[2] Production Tons (000's)	Minn. %U.S.	U.S.[3] Production Tons (000's)	Minn. %World	World[3] Production Tons (000,000's)
1950	65,235	66.5	98,045	26.4	247
1955	67,893	65.9	103,003	18.7	363
1960	57,425	64.7	88,784	11.2	514
1965	52,466	60.0	87,439	8.6	611
1970	56,520	63.0	89,760	7.5	757
1975	51,036	64.8	78,866	5.8	888
1979	59,563	69.5	85,716	6.7	889
1980	45,281	65.0	69,613	5.2	877
1981	51,033	69.7	73,174	6.0	845
1982	24,234	68.4	35,433	3.2	769
1983	26,024	69.3	37,562	3.6*	727*
1984	36,538	71.3	51,269	4.5*	822*
1985	34,730	71.2	48,751	4.1*	840*
1986	26,573	68.5	38,825	3.1*	848*
1987	33,182	77.0	43,100*	3.8*	871*

*Preliminary figures (world figures revised each year for previous five years)

Source of Information - 1) County Mine Inspection Reports
2) Minnesota Occupation Tax Reports
3) American Iron Ore Association

TABLE 3

SUMMARY OF ALL TAX LIABILITIES FOR THE MINNESOTA MINING INDUSTRY (TACONITE AND IRON ORE)*
Based on the Production or Calendar Year (000's)

TAX	1980	1981	1982	1983	1984	1985	1986	1987	1988 Est.
Ad Valorem-Unmined Natural Ore									
-(Year Assessed)	$ 3,689	$ 3,770	$ 3,545	$ 3,700	$ 3,326	$ 3,037	$ 2,626	$ 2,372	$ 2,000
Occupation-Taconite	13,808[a]	12,708[a]	3,348[a]	7,386[a]	29,915[a]	9,907[a]	6,234[f]	5,356	3,500
-Natural Ore	1,000	1,232	719	499	442	394	343[f]	789	750
Taconite Production	87,179	99,018	80,305	67,341	64,514[b]	65,092[c]	48,658[d]	51,184[e]	57,728[h]
Excise Tax (School Bonds)	138	183	176	824	775	782	699	673	675
Railroad Gross Earnings-Taconite	2,984	4,961	1,354	926	1,678	1,985	1,671[f]	1,405[g]	1,451[g]
Royalty-Taconite	4,619	5,392	4,093	2,821	4,564	3,576	2,436	1,959	2,392
-Natural Ore	713	429	619	445	536	454	208	352	292
Unmined Taconite (Year Assessed)	232	240	285	331	321	397	385	393	390
Sales & Use (Taconite Only)	9,982	9,799	7,828	5,765	7,110	6,477	4,890	5,287	7,000
TOTAL: (Taconite Only)	$118,942	$132,301	$ 97,389	$ 85,394	$108,879	$ 88,216	$64,973	$66,257	$73,136
TONS PRODUCED: (Taconite)	43,060	49,369	23,445	25,173	35,689	33,265	25,451	32,109	40,000
TOTAL TAXES PAID									
ON PER TON BASE: (Taconite)	2.76	2.68	4.15	3.39	3.05	2.65	2.55	2.06	1.83

* Some totals may not add due to rounding.

[a] These numbers reflect taconite tax liability prior to M.S. 298.40 credits (see Table 16).

[b] Actual amount collected after credits are applied. A $6.93 million credit was allowed due to a Minnesota Supreme Court decision on production tax court cases. A $2.72 million credit was given to the Erie Mining Company as a result of tonnage corrections for the 1978-1983 production years. Also a $0.25 million credit was allowed for construction of a water filtration plant.

[c] Actual amount collected after credits are applied. A $4.47 million credit was allowed due to a Minnesota Supreme Court decision on production tax court cases. Also, a $0.25 million credit was allowed for construction of a water filtration plant.

[d] Actual amount collected after credits are applied (see Table 12).

[e] Estimated amount after credits applied. A $4.43 million credit will be allowed due to a Minnesota Supreme Court decision. Also, a $0.25 million credit will be allowed for construction of a water filtration plant.

[f] Includes pre-petition bankruptcy liability that was not collected.

[g] Includes natural ore from LTV Steel Company being shipped on LTV Steel Mining railroad.

[h] Estimated amount after credits are applied. A $3.04 million credit will be allowed due to a Minnesota Supreme Court decision.

TABLE 4
MINNESOTA TAXES LEVIED ON TACONITE AND SEMI-TACONITE ONLY

Production Year	Unmined Taconite Tax	Sales & Use[a] Tax	Production Tax	Occupation[a] Tax	Royalty Tax	Excise[b] Tax	Railroad Gross Earnings[a] Tax	Total Taxes	Total Tons Produced	Total Taxes Per Ton
1960	---	---	735,708	638,489	1,280,553	1,741,820	815,952	5,212,522	13,383,000	.39
1965	---	---	1,107,097	1,740,307	502,167	1,443,170	1,337,497	6,130,238	19,004,162	.32
1970	64,000	Not Avail.	4,252,668	3,161,186	787,108	1,346,642	1,768,702	11,380,306	35,347,844	.32
1975	64,000	7,214,111	30,347,066	18,955,051	2,657,458	193,905	3,072,496	62,504,087	40,808,917	1.53
1976	---	7,446,168	30,857,046	18,269,842	2,841,120	188,325	3,338,487	62,940,988	40,574,591	1.55
1977	---	7,375,115	48,757,124	3,190,408	2,626,141	182,745	1,509,773	63,641,306	26,371,588	2.41
1978	---	8,573,833	69,221,559	19,226,372	3,279,861	177,165	3,267,247	103,746,037	49,544,671	2.09
1979	239,748	12,590,482	88,483,670	23,856,757	4,775,352	165,726	3,634,407	133,746,142	55,333,032	2.42
1980	232,218	9,981,715	87,178,532	13,807,599	4,619,799	138,476	2,983,819	118,942,158	43,059,750	2.76
1981	240,064	9,797,691	99,018,289	12,707,553	5,392,864	183,267	4,960,605	132,300,333	49,368,518	2.68
1982	284,701	7,827,049	80,305,437	3,347,835	4,093,008	176,421	1,354,173	97,388,624	23,445,104	4.15
1983	330,969	5,765,048	67,341,038	7,385,782	2,821,421	824,083	926,207	85,394,548	25,173,262	3.39
1984	321,389	7,110,166	64,514,255(c)	29,915,354(d)	4,563,672	774,865	1,678,295	108,877,996	35,688,592	3.05
1985	396,669	6,476,570	65,091,787(c)	9,906,688(e)	3,576,000	782,076	1,985,441	88,215,231	33,264,701	2.65
1986	384,697	4,890,472	48,657,782(c)	6,233,533*	2,436,402*	699,422	1,670,756*	64,973,064	25,451,055	2.55
1987	392,614	5,286,947	51,184,126(c)	5,355,872	1,959,251	673,000	1,404,961	66,256,771	32,108,759	2.06
1988 Est.	390,000	7,000,000	57,728,000(c)	3,500,000	2,392,000	675,000	1,451,000	73,136,000	40,000,000	1.83

[a] Sales & Use Tax, Occupation Tax and Railroad Gross Earnings Tax have been used to reduce credits owed to the taconite companies as the result of the tax limitation imposed by the Taconite Amendment and M.S. 298.40. As a result, the actual collections of these taxes was significantly less than the amounts shown on this schedule. For the exact amounts of tax not collected, (1) due to the M.S. 298.40 limitation and, (2) to offset credits owed to taconite companies as a result of M.S. 298.40 and the Taconite Amendment, refer to the Occupation Tax section.

[b] Special School and Village Taxes (School Bonds, etc.).

[c] After all credits have been applied. The 1984 production tax is based on the tonnage produced only in 1984--a change in the 1984 Minnesota Statutes. The 1985 production tax is based on the tonnage production average for 1984 and 1985. The 1986 production tax is based on the three-year average of production tonnage for 1984, 1985 and 1986.

[d] Occupation tax increase reflects improved operating costs, i.e., reduced labor and supply costs with a tonnage production increase and no decrease in the Lake Erie Value.

[e] The decrease is due to a significant drop in the Lake Erie Value allowed for all companies for the entire year 1985.

* Includes pre-petition bankruptcy liability that was not collected.

TABLE 4A
LAKE ERIE VALUE (Historical Summary)

	NATURAL ORE				TACONITE				
		TRANSPORTATION COSTS ($/TON)					TRANSPORTATION COSTS ($/TON)		
Year	LAKE ERIE VALUE/TON Mesabi Non-Bessemer	Mine to Boat	Boat to LLPort	Total Transportation	LAKE ERIE VALUE Per Natural Iron Unit	LAKE ERIE VALUE ($/ton)[a]	Mine to Boat	Boat to LLPort	Total Transportation
1965	10.55	1.47	2.17[b]	3.64	.2520	16.38	1.47	2.17[b]	3.64
1970	10.80	1.74	2.31[c]	4.05	.2660	17.29	1.74	2.31[c]	4.05
1971	11.17	2.00	2.42[c]	4.42	.2800	18.20	2.00	2.42[c]	4.42
1972	11.17	2.00	2.42[c]	4.42	.2800	18.20	2.00	2.42[c]	4.42
1973	11.71	2.18	2.54[c]	4.72	.2910	18.92	2.18	2.54[c]	4.72
1974	13.97	2.56	3.24[b]	5.80	.3541	23.02	2.56	3.24[b]	5.80
1975	17.88	2.92	3.91[d]	6.83	.4602	29.91	2.92	3.91[d]	6.83
1976	19.61	3.25	4.29[d]	7.54	.5134	33.37	3.25	4.29[d]	7.54
1977	21.11	3.52	4.56	8.08	.5553	36.09	3.52	4.56	8.08
1978	22.02	3.66	4.95	8.61	.5851	38.03	3.70	4.97	8.67
1979	23.76	4.07	5.45	9.52	.6524	42.41	4.17	5.64	9.81
1980	26.87	4.82	6.42	11.24	.7289	47.38	4.86	5.84	10.70
1981	29.93	5.88	7.47	13.35	.7788	50.62	6.11	6.75	12.86
1982	32.53	7.13	8.06	15.19	.8690[e]	56.49	4.61[f]	8.08	12.69
1983	31.80	6.96	8.09	15.05	.8690[e]	56.49	4.94[f]	8.09	13.03
1984	31.53[g]	6.73	8.09	14.82	.8690[e]	56.49	4.98[f]	8.09	13.07
1985	31.53[g]	6.73	8.09	14.82	.7250[h]	47.12	4.98[i]	8.09[i]	13.07
1986	31.53[g]	6.73	8.09	14.82	.7250[h]	47.14	4.98[i]	8.09[i]	13.07
1987 (1/1-4/30)	31.53[g]	6.73	8.09	14.82	.7250[h]	47.14	4.98[i]	8.09[i]	13.07
1987 (5/1-12/31)	16.66[g]	-0-	-0-	-0-	Acid .37344	24.34	-0-	-0-	-0-
					Flux .38888	25.28	-0-	-0-	-0-

a) Based on a pellet containing 65% Natural Iron. Actual Lake Erie Value by pellet quality.
b) Less 1/2 percent shrinkage.
c) Less one percent shrinkage.
d) Less 1/4 percent shrinkage.
e) Industry prices used for occupation taxes. One company (P-M) quoted a lower price (80.50) not used by the State.
N/A - Not Available.

f) Includes four month winter storage at docks.
g) Fines at 51.50%.
h) Quoted prices for companies varied from .594 at Lake Superior to .725 or .869. Lake Erie prices. Any price changes occurred in August or September, 1985. The Commissioner of Revenue allowed all companies to use .725 for 1985 & 1986.
i) 1985-86 rail freight quoted in Skillings: 4.98. Occupation Tax Allowance: 4.85. 1985-86 lake freight quoted in Skillings: 8.37. Occupation Tax Allowance: 8.09.

Effective May 1, 1987, the Department of Revenue, Minerals Tax Office, modified the starting point for Occupation Tax from the Lake Erie Value to the Mine Value, which is the value of the ore at the mine, after beneficiation, but without any transportation charges. Two prices for taconite pellets were established, one for acid (regular) pellets and another price for flux (limestone added) pellets. Additional detail is provided in the Occupation Tax section.

TACONITE PRODUCTION TAX

Taconite and semi-taconite are generally exempt from the ad valorem tax but are taxed under a production tax which is "in lieu of" ad valorem taxes. (Certain limited ad valorem taxes which apply to the taconite industry are discussed in more detail in the section covering unmined taconite taxes.)

The taconite production tax rate for concentrates produced in 1987 was $1.90 per taxable ton. (Taxable tons are the average tonnage produced during the current and previous two production years). The taconite production tax rate for concentrates produced in 1988 will remain at $1.90 per taxable ton. This is due to a special provision made by the legislature that allowed the tax rate to remain unchanged for the 1988 production year if production exceeded 34,000,000 tons. For subsequent years, the $1.90 tax rate will be escalated by the percentage increase in the Gross National Product Implicit Price Deflator from the fourth quarter of the second preceding year to the fourth quarter of the preceding year.

LEGISLATIVE CHANGES

The 1986 legislature made the following changes in aid distribution beginning with distribution made in 1988:

		Effective Distribution Year
School District 6-cents	Reduced to 5.5-cents	1988
School Fund 23-cents	Reduced to 22-cents	1988

The 1987 legislature made changes which include the following:

1. Basic flux additives may be subtracted from the weight of the "fluxed pellets" for production tax purposes. According to M.S. 298.24, Subdivision 1, Clause (e), 'fluxed pellets' are pellets produced in a process in which limestone, dolomite, olivine, or other basic flux additives are combined with merchantable iron ore concentrate."
2. The cents-per-ton distribution for the county fund and the county road and bridge fund was frozen at the escalated distribution rate used for the 1986 production tax.

The 1988 legislature made the following changes beginning with distribution year 1989:

1. Reduced the Taconite Property Tax Relief from 22-cents to 12-cents.
2. A percentage of the principal and interest payment on school bonds (if issued) will be paid, in equal shares, by the Taconite Environmental Protection Trust and the Northeast Minnesota Economic Protection Trust for the following school districts:

School	Aggregate Principal Not to Exceed	Percent of Payment
318 - Grand Rapids	$1,000,000	80%
701 - Hibbing	$3,500,000	80%
706 - Virginia	$2,500,000	80%
708 - Tower	$1,000,000	80%
710 - St. Louis County	$1,000,000	100%

DISTRIBUTION OF THE TACONITE PRODUCTION TAX

The taconite mining companies make the production tax payments directly to the six counties affected (Cook, Lake, St. Louis, Itasca, Crow Wing, and Aitkin) and the I.R.R.R.B. The county auditor of each county is responsible for taconite aid payments to the taxing jurisdictions within the county. St. Louis County was designated as fiscal agent for the taconite property tax relief account and issues taconite property tax relief checks to the other five counties. The Department of Revenue makes all computations regarding the amount to be paid by the companies and the aid payments due to cities, schools, townships and counties. Interest earnings on undistributed funds are remitted by the counties to the I.R.R.R.B.

The proceeds of the 1987 taconite production tax (payable 1988) are distributed by statute as follows (all figures are cents per taxable ton):

M.S. 298.28, Subdivision 1.		
1. Taconite Cities and Town:		2.5
2. Taconite Municipal Aid Account:		12.3
3. School Districts -		
a. Taconite schools (mining and/or concentrating in the district):	5.5	
b. School districts that qualify for taconite for taconite homestead credit in proportion to their levies:	22.0	
Basic School District Total:		27.5
c. Taconite Referendum Fund:	(formula amount)	
4. Counties -		
a. Taconite Counties: (includes Electric Power Plant)	13.0*	
b. Taconite Counties Road/Bridge:	3.5*	
Counties Total:		16.5*
5. Taconite Property Tax Relief:		22.0**
6. I.R.R.R.B.:		3.0**
7. Range Assn. of Municipalities and Schools:		0.2
8. N.E. Minnesota Economic Protection Fund:		1.5**

* For the 1987 production year, the cents-per-ton distribution was 20.5-cents for the county fund and 5.5-cents for the county road and bridge fund.

** These funds are escalated using the Gross National Product Implicit Price Deflator. After escalation, the cents-per-ton for Taconite Property Tax Relief was 35.5-cents; I.R.R.R.B. was 4.8-cents, and the N.E. Minnesota Economic Protection Fund was 2.4-cents.

DESCRIPTION OF FUNDS

1. Taconite Cities and Towns

Forty percent of this fund goes to those cities and townships in which mining activity occurs. The remaining 60 percent goes to those cities and townships in which the concentrating of the taconite occurs. (Note: This is done on a company-by-company basis). This split is determined either by a percentage of taconite reserves or a four-year average of production.

2. Taconite Municipal Aid Account

The Taconite Municipal Aid payment is made on September 15. Each city or township first receives the amount it was entitled to receive in 1975 from the occupation tax. This amount is then reduced according to the percentage aid guarantee provisions of M.S. 298.225. For example, if production levels mandate a 70 percent aid guarantee, then the occupation tax grandfather amount is also reduced to 70 percent. The remainder of the aid is distributed according to a complex formula using levies, valuation, and fiscal need factors. The conditions necessary for a municipality to qualify for this aid are identical to the qualifications for the 66 percent taconite property tax relief listed under part (5)a on the following page. The statutory references governing Municipal Aid are M.S. 273.134 (qualifying municipalities), M.S. 298.28, Subd. 1, Clause 2, and M.S. 298.282.

3a. <u>School District $.055 Fund</u>

Each school district in which mining and/or concentrating occurs (split 40 and 60 percent to each respectively) receives an equitable portion of the mining aid and/or concentrating aid. This split is determined either by a percentage of taconite reserves or a four-year average of production.

b. <u>School $.22 Fund</u>

Each school district receives the amount which it was entitled to receive in 1975 from the taconite occupation tax. This amount may be reduced by the percentage aid guarantee provisions of M.S. 298.225. The remaining amount in the fund is distributed using an index based on pupil units and EARC values.

c. Taconite Referendum Fund
<u>(Formerly School Fund Index)</u>

The Taconite Referendum Fund is an escalated portion of the 22-cent school fund using the Gross National Product Implicit Price Deflator escalation factor. Payments were first made from this fund in 1982 and are made on July 15 of each year. Taconite school districts qualify for an additional $150 per pupil unit over and above state aids by passing a 1.75 mill levy referendum. The school district receives additional taconite aid in the amount of $150 per pupil unit less the amount raised locally by the 1.75 mills.

4a. <u>Taconite Counties</u>

Each county receives a portion of the aid in the same manner as (1) - Taconite Cities and Towns, less any amount distributed under 4b.

b. <u>Electric Power Plant</u>

If an electric power plant owned by and providing the primary source of power for a taconite plant is located in a county (currently only Erie--Cook County) other than the county in which the mining and concentrating processes are conducted, one-cent of the 13.0-cents-per-ton (for that company) shall be distributed to the county in which the power plant is located (this one-cent is not escalated).

c. <u>Taconite Counties Road & Bridge</u>

Each county receives a portion of the aid in the same manner as (1) Taconite Cities and Towns, to be deposited in the county road and bridge fund.

5a. <u>Taconite Property Tax Relief</u>

A total of 12-cents per ton escalated by the Gross National Product Implicit Price Deflator is allocated to the Taconite Property Tax Relief Account. The qualifications and distribution of taconite property tax relief are described in the following paragraphs.

The Taconite Homestead Credit reduces the tax paid by owners of certain properties located on the Iron Ranges. The properties receiving this credit are owner-occupied homes and owner-occupied farms.

The tax on all of the land comprising the farm is used in determining the amount of credit for a farm. Prior to 1983, the credit on farms was limited to 240 acres.

If an owner-occupied home or farm is located in a city or town which contained at least 40 percent of its valuation as iron ore on May 1, 1941 (but does not exceed 60 percent) or currently has a taconite mine, processing plant or electric generating facility, the taconite credit is 66 percent of the tax on that property. Under current law, the credit increases $15 per year, which will make a maximum credit of $535 for taxes payable in 1988. If the property is not located in such a city or town, but is located in a school district containing such a city or town, the taconite credit is 57 percent of the tax on the property to a maximum credit of $480 for taxes payable in 1988. For taxes payable in 1989, these increase to $550 and $495 respectively.

Most of the other property tax credits that a property may be eligible to receive are deducted from the gross tax on the property before the Taconite Homestead Credit is determined. An example of this deduction is the Agricultural Credit which also reduces the tax on farm property. The 54 percent state homestead credit is now deducted prior to determining the Taconite Homestead Credit. The maximum credit under the 54 percent state-paid homestead credit is $725 for taxes payable in 1989.

A revised formula which includes the "taconite break point" was introduced for the taconite homestead credit beginning with taxes payable in 1984. This formula is too long and complex to explain briefly. However, it basically insures that recipients will not receive a greater credit with the new formula than they would have received under the pre-1984 formula.

The 1988 legislature enacted a comprehensive property tax reform. Each classification of property will have a tax capacity based on its market value times tax capacity percentage. The new property tax formula will tend to reduce property taxes in previously high mill rate areas. Most of the relief was intended for highly taxed non-homestead property. The new formula for taconite homestead credit may not reduce the effective tax rate to less than 95 percent of the payable 1988 effect tax rate. (For more information, please contact the local assessor).

The statutory references governing taconite property tax relief are contained in M.S. 273.134 to M.S. 273.136, and M.S. 298.28, Subd. 6. This credit is guaranteed by the N.E. Minnesota Economic Protection Fund as stated in M.S. 298.293.

b. Electric Power Plant

For any electric power plant located in another county (as described in 4b) .5625-cents of the 22.0-cents-per-ton in the Taconite Property Tax Relief account shall be distributed to the school district in which the power plant is located and .1875-cents-per-ton shall be distributed to the county containing that power plant. These cents-per-ton are escalated by the Gross National Product Implicit Price Deflator. (Only Erie Mining Company and Cook County are affected).

In addition to the preceding distributions, additional amounts are distributed as follows:

1. In 1978 and each year thereafter, there will be distributed to each city, town, school district, and county the amount that they received in 1977 from the distribution of the gross earnings tax on taconite railroads.

Amount: $3,160,899

2. In 1978 and each year thereafter, there will be distributed to the Iron Range Resources and Rehabilitation Board the amount it received in 1977 from the distribution of the taconite and iron ore occupation taxes.

Amount: $1,252,520

3. All proceeds from the taconite production tax remaining after the above distributions shall be divided between the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Protection Fund. The Taconite Environmental Protection Fund will receive two-thirds, and the Northeast Minnesota Economic Protection Fund will receive one-third.

4. Beginning with the 1982 production year, a $240,000 payment is made by the Department of Revenue to School District 710 for payment of school bonds. An amount equal to four-cents per ton of Eveleth Mines taxable production is subtracted from money otherwise payable to the Northeast Minnesota Economic Protection Fund. Any remaining amount required to equal $240,000 shall be paid as provided by M.S. 298.225.

5. The 1982 Legislature increased the taconite production tax credit to four-cents per taxable ton for school district bonds. However, a credit of seven-cents per ton is allowed for Independent School District 703, Mt. Iron. (In July 1985, the Mt. Iron and Buhl school districts consolidated into Independent School District No. 712). The school bond credits are subtracted from the amount which would otherwise be distributed to the Northeastern Minnesota Economic Fund. These credits are for bond payments made by the companies and are not collected or distributed by the Department of Revenue.

M.S. 298.225 - The recipients of the taconite production tax as provided in M.S. 298.28, Subdivision 1, Clauses (2) to (5), (6)(b), (6)(c), (7) and (8), are guaranteed to receive distributions equal to the amount distributed to them with respect to the 1983 production year, provided that production is not less than 42,000,000 taxable tons. If the production is less than 42,000,000 taxable tons, the amount distributed from the fund will be reduced proportionately at two percent per each 1,000,000 tons that the production is less than 42,000,000 tons. This aid guarantee is funded equally by the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Protection Fund. The aid payments covered by this variable guarantee are listed as follows:

1. 2.5-cents City and Town Fund.
2. 12.3-cents Taconite Municipal Aid.
3. 3-cents Escalated to I.R.R.R.B.
4. .2-cents R.A.M.S.
5. .1875 cent power plant transfer from Taconite Property Tax Relief Account to Cook county.

The following funds are guaranteed at 75 percent or the variable guarantee above, whichever is less:

1. 13.0-cent Taconite County Fund.
2. 3.5-cent Taconite County Road and Bridge Fund.

The following funds are guaranteed at 50 percent or the variable guarantee above, whichever is less:

1. 22-cent School Fund.
2. 5.5-cent School District Fund.
3. Taconite Referendum Fund.
4. .5625-cent power plant transfer from Taconite Property Tax Relief Account to S.D. 166.

The Taconite Property Tax Relief is not covered by M.S. 298.225, but is guaranteed separately by the Economic Protection Fund as stated in M.S. 298.293.

PRODUCTION TAX "GRANDFATHER" AMOUNTS BASED ON PAST OCCUPATION TAX DISTRIBUTIONS

Some of the present production tax distributions are "grandfathered" amounts which, in the past, were distributed from the general fund based upon occupation tax collections. These distribution amounts became effective with the collection of the 1975 production tax. They are based upon amounts distributed in 1975 from the 1974 occupation tax. The amounts actually distributed are reduced consistent with the aid guarantee provisions of M.S. 298.225.

City/Township	Municipal Aid
Aurora	$ 3,047
Babbitt	60,872
Eveleth	3,526
Gilbert	1,606
Hibbing	25,747
Hoyt Lakes	92,896
Keewatin	8,326
Mt. Iron	145,670
Nashwauk	8,079
Silver Bay	57,979
Virginia	2,841
Great Scott Twp.	11,910
Greenway Twp.	7,511
Lone Pine Twp.	2,820
McDavitt Twp.	8,048
Nashwauk Twp.	8,370
White Twp.	29,481
	$478,729

School District	School Aid
316-Coleraine	$ 63,088
319-Nashwauk-Keewatin	7,124
381-Lake Superior	115,957
691-Aurora-Hoyt Lakes	198,878
692-Babbitt	121,743
693-Biwabik	51,971
697-Eveleth	13,475
701-Hibbing	51,493
706-Virginia	2,470
710-St. Louis County	16,096
712-Mt. Iron-Buhl	315,160
	$957,455

TACONITE PROPERTY TAX RELIEF

The taconite homestead credits described on page 9 and 11 are administered by the county auditors for the eligible relief areas within the county. The amounts payable in 1988 are listed as follows:

(NOTE: The $10,883,289 is split between the local municipalities, counties and schools based upon the current mill rates).

Total Listed by County Area:

St. Louis County	$ 6,479,545
Itasca County	$ 2,335,576
Lake County	$ 710,122
Crow Wing County	$ 586,938
Aitkin County	$ 490,329
Cook County	$ 277,170
Koochiching County	$ 3,609
TOTAL PAYABLE IN 1988:	$10,883,289

Total Listed by School District Area:

001-Aitkin	$ 510,829
166-Cook County	$ 277,170
182-Crosby/Ironton	$ 566,438
316-Coleraine	$ 497,394
318-Grand Rapids	$ 1,568,895
319-Nash./Keewatin	$ 269,287
381-Lake Superior	$ 839,556
691-Aurora/H.L.	$ 392,658
692-Babbitt	$ 179,902
693-Biwabik	$ 184,903
695-Chisholm	$ 572,453
696-Ely	$ 451,533
697-Eveleth	$ 512,890
699-Gilbert	$ 233,436
701-Hibbing	$ 1,508,422
706-Virginia	$ 1,000,036
708-Tower/Soudan	$ 228,488
710-St. Louis Cty.	$ 776,263
712-Mt. Iron/Buhl	$ 312,736
TOTAL PAYABLE IN 1988:	$10,883,289

TABLE 5

AVERAGE DISTRIBUTION OF THE PRODUCTION TAX (CENTS-PER-TON)

1988 DISTRIBUTION (1987 PRODUCTION YEAR) BASED ON 30,252,936 TAXABLE TONS

Aid Recipient	Cents Per Taxable Ton
Taconite Cities and Towns	3.4
Taconite Municipal Aid	17.1
School Districts	44.1*
County	28.8
County Road and Bridge	7.5
Taconite Property Tax Relief	32.2
I.R.R.R.B.	10.0
R.A.M.S.	.3
Taconite Railroad Grandfather Amount	10.4
Taconite Environmental Protection Fund	14.5
N.E. Minnesota Economic Protection Fund	.1
School Bond Credits and Payment	3.0
1987 Court Case Credits	11.0
Bankruptcy Adjustments	7.6**
	190.0

* 36.8-cents-per-ton will be subtracted from aids or levies a taconite school district would otherwise receive. The 5.5-cent and 22-cent school funds and the school portion of taconite railroad fund are subtracted while the taconite referendum money is in addition to state aid.

** Various adjustments to the distributions were made because of the Chapter 11 bankruptcy of Reserve Mining Company. Due to its bankruptcy, $2,305,604 was not collected from Reserve Mining Company.

TABLE 6
SUMMARY OF TACONITE PRODUCTION TAX DISTRIBUTION*

PRODUCTION YEAR:	1982	1983	1984	1985	1986	1987
City & Township	$ 1,361,734	$ 1,362,133	$ 1,192,100	$ 1,157,812	$ 1,005,214	$ 1,037,379
Taconite Municipal	6,701,700	6,701,700	5,855,757	5,696,443	4,949,028	5,177,066
School District - Regular	3,336,407	3,336,709	2,920,098	2,836,169	2,019,239	1,920,580
School District Fund	12,531,638[a]	12,531,638	10,967,343	10,651,894	7,610,880	7,412,485
Taconite Referendum Fund	3,866,675	3,867,247	3,958,435	4,000,678	4,021,355	4,027,123
County	11,756,167	11,814,390	10,437,393	10,194,573	8,474,378	8,702,769
County Road & Bridge	3,028,085	3,043,061	2,688,626	2,626,006	2,197,104	2,269,243
Taconite Prop. Tax Relief	15,684,072[a]	13,261,767	8,884,109	9,398,881	9,122,405	9,727,842
State	544,853	544,853	343,974	-0-	-0-	-0-
I.R.R.R.B. ($.03 Indexed)	2,150,722	2,161,750	1,958,162	1,903,782	1,650,487	1,760,279
Range Association of Municipalities & Schools	108,972	108,972	95,003	92,271	80,115	82,680
Taconite Railroad (Fixed)	3,160,899	3,160,899	3,160,899	3,160,899	3,160,899	3,160,899
I.R.R.R.B. (Fixed)	1,252,520	1,252,520	1,252,520	1,252,520	1,252,520	1,252,520
710 School Bond Payment	240,000	240,000	240,000	240,000	240,000	240,000
Taconite Environmental Protection Fund	11,785,651	6,029,799	8,719,590	9,201,969	3,334,820	4,397,896
N.E. Minnesota Economic Protection Fund	2,793,123	(2,076,400)	1,840,246	2,677,890	(460,662)	15,365
TOTAL:	$80,303,218	$67,341,038[b]	$64,514,255[c]	$65,091,787[d]	$48,657,782[e]	$51,184,126[f]

*The production tax is collected and distributed in the year following production, e.g., the 1986 production tax was collected and distributed during 1987.

a) Actual distribution payments differ due to overpayments made from the School District Fund in previous years.

b) Total after school bond credits have been taken.

c) Total after the school bond, filtration plant and Erie II court case and prior year tonnage correction credits have been taken.

d) Total after the school bond, filtration plant and Erie II court case credits have been taken.

e) Total after the school bond, filtration plant and Erie II court case credits have been taken, along with bankruptcy adjustments.

f) Total after school bond and Erie II court case credits have been taken, along with bankruptcy adjustments.

TABLE 7
TACONITE PRODUCTION TAX DISTRIBUTIONS TO CITIES & TOWNSHIPS - 1988
(Based upon 1987 Production Year Tax Revenues)
(Not including Taconite Property Tax Relief Dollars)

Name	Mining & Concentrating	Taconite[a] Railroad	Taconite Municipal Aid	Total
COOK COUNTY				
Schroeder Township	$ ---	$ 47,700	$ 8,225	$ 55,925
CROW WING COUNTY				
Crosby	---	---	95,809	95,809
Ironton	---	---	28,382	28,382
Riverton	---	---	4,144	4,144
Trommald	---	---	2,808	2,808
Irondale Township	--	---	22,547	22,547
Rabbit Lake Township	---	---	3,933	3,933
Wolford Township	---	---	3,402	3,402
ITASCA COUNTY				
Bovey	---	---	58,834	58,834
Calumet	---	---	30,247	30,247
Coleraine	---	---	74,835	74,835
Keewatin	26,501	---	95,531	122,032
Marble	---	---	55,022	55,022
Nashwauk	11,044	---	106,025	117,069
Taconite	---	---	25,309	25,309
Bass Brook Township	---	---	30,353	30,353
Grand Rapids Township	--	---	73,133	73,133
Greenway Township	14,065	---	42,457	56,522
Lone Pine Township	4,607	---	2,089	6,696
Nashwauk Township	10,814	---	30,426	41,240
LAKE COUNTY				
Silver Bay	78,193	152,706	177,904	408,803
Beaver Bay Township	---	12,565	---	12,565
Crystal Bay Township	---	6,951	---	6,951
Silver Creek Township	--	20,612	---	20,612
Stony River Township	---	19,943	---	19,943
ST. LOUIS COUNTY				
Aurora	-0-	---	129,184	129,184
Babbitt	81,854	166,767	151,912	400,533
Biwabik	---	---	75,670	75,670
Buhl	---	---	81,192	81,192
Chisholm	---	---	336,664	336,664
Ely	---	---	223,198	223,198
Eveleth	36,178	---	278,699	314,877
Franklin	3,583	---	925	4,508
Gilbert	---	---	143,118	143,118
Hibbing	233,496	---	1,033,218	1,266,714
Hoyt Lakes	119,433	152,153	217,508	489,094
Kinney	4,462	---	42,939[b]	47,401
Leonidas	2,531	---	7,625	10,156
McKinley	---	---	14,383	14,383
Mountain Iron	254,310	---	299,202	553,512
Virginia	16,581	---	710,906	727,487
Balkan Township	---	---	51,917	51,917
Bassett Township	--	11,745	---	11,745
Biwabik Township	---	---	37,167	37,167
Breitung Township	---	---	26,253	26,253
Fayal Township	3,329	---	55,176	58,505
Great Scott Township	7,330	---	24,318	31,648
McDavitt Township	51,487	---	24,846	76,333
White Township	43,457	---	219,946[b]	263,403
Wuori Township	34,124	---	19,685	53,809
TOTALS:	$1,037,379	$ 591,142	$ 5,177,066	$6,805,587

[a] Fixed amount based on 1977 Taconite Railroad Gross Earnings Tax distributions.
[b] Includes amount from M.S. 298.28, Subd. 1, Clause (2)(b).

TABLE 8*

TACONITE PRODUCTION TAX DISTRIBUTION TO COUNTIES - 1988**

County	Regular County 15.5-Cents Escalated	County Road & Bridge 4-Cents Escalated	Taconite Railroad	Total
Cook	$ 89,239	$ ---	$187,190	$ 276,429
Itasca	533,103	139,668	---	672,771
Lake	684,942	176,766	243,034	1,104,742
St. Louis	7,395,485	1,952,809	354,153	9,702,447
TOTAL:	$8,702,769	$2,269,243	$784,377	$11,756,389

* - Does not include dollars from Taconite Property Tax Relief.
** - Distribution in calendar year 1988 is based on 1987 production year.

TABLE 9*

TACONITE PRODUCTION TAX DISTRIBUTION TO SCHOOL DISTRICTS - 1988**

School Districts	$.055	$.22	Taconite Railroad	Taconite Referendum	Total
1 - Aitkin	$ ---	$ 392,231	$ ---	$ 135,223	$ 527,454
166 - Cook County	46,980[1]	36,994	427,383	45,699	557,056
182 - Crosby -Ironton	---	346,370	---	161,385	507,755
316 - Coleraine	51,975	527,386	---	267,894	847,255
318 - Grand Rapids	---	1,089,048	---	433,126	1,522,174
319 - Nashwauk-Keewatin[2,3]	124,237	170,233	---	128,942	423,412
381 - Lake Superior	126,664	452,740	552,774	364,153	1,496,331
691 - Aurora-Hoyt Lakes	193,467	512,959	345,802	243,629	1,295,857
692 - Babbitt	132,595	263,392	459,421	145,758	1,001,166
693 - Biwabik	70,397	117,837	---	70,139	258,373
695 - Chisholm	---	354,948	---	182,540	537,488
696 - Ely	---	163,273	---	137,618	300,891
697 - Eveleth	75,820	308,004	---	199,106	582,930
699 - Gilbert	---	174,034	---	95,926	269,960
701 - Hibbing	457,528	842,219	---	538,751	1,838,498
706 - Virginia	116,902	420,262	---	289,781	826,945
708 - Tower-Soudan	---	168,185	---	39,264	207,449
710 - St. Louis County[4]	92,861	630,709	---	361,493	1,085,063
712 - Mt. Iron-Buhl[5]	431,154	441,661	---	186,696	1,059,511
	$1,920,580	$7,412,485	$1,785,380	$4,027,123	$15,145,568

* - Does not include dollars from Taconite Property Tax Relief.
** - Distribution in calendar year 1988 is based on 1987 production year.
1) - Erie Power Plant distribution.
2) - Butler Taconite received school bond credit of $38,444 for school bond payment.
3) - National Steel received school bond credit of $93,213 for school bond payment.
4) - S.D. 710 received school bond payment of $240,000 from the St. Louis County Auditor.
5) - U. S. Steel received school bond credit of $541,343 for school bond payment.

TABLE 10
TACONITE PRODUCTION AND TAX REVENUE -- BY FIRM

PRODUCTION YEAR 1987

Firm	Production Tons	Taxable Tonnage[1]	Production Tax Rate	Tax Collected[2]
Butler	-0-	317,492	$1.90	$ 415,593
LTV Steel	6,774,330	5,289,930	1.90	10,050,867
Eveleth	3,481,280	3,293,528	1.90	6,024,330
Hibbing	7,685,375	5,875,551	1.90	10,877,278
Inland	2,118,660	1,916,017	1.90	3,503,206
National	4,314,534	4,254,856	1.90	7,598,304
Reserve	-0-	1,572,096	1.90	-0-
USX	7,660,870	7,733,466	1.90	12,714,548
TOTAL:	32,043,049	30,252,936	$1.90	$51,184,126

ESTIMATED FOR PRODUCTION YEAR 1988

Firm	Production Tons	Taxable Tonnage[1]	Production Tax Rate	Tax Collected[2]
Butler	-0-	-0-	$1.90	$ -0-
LTV Steel	7,700,000	6,236,000	1.90	11,848,000
Eveleth	4,200,000	3,712,000	1.90	6,830,000
Hibbing	8,800,000	7,122,000	1.90	13,258,000
Inland	2,500,000	2,142,000	1.90	3,938,000
National	4,800,000	4,379,000	1.90	7,809,000
Reserve	-0-	344,000	1.90	-0-
USX	12,000,000	8,429,000	1.90	14,045,000
TOTAL:	40,000,000	32,364,000	$1.90	$57,728,000

1) The taxable tonnage is the average production of the current year and previous two years.

2) Production tax revenue after school bond credits, the 1984 court settlement credits and bankruptcy adjustments have been made.

3) The tax rate for the 1988 production year will remain at $1.90 per taxable ton since production will be more than 34,000,000 tons.

TABLE 11
TACONITE PRODUCED (THOUSANDS OF TONS)
AND PRODUCTION TAX COLLECTIONS (THOUSANDS OF DOLLARS)
1955 - 1988

Year	Production Tons	Production[a] Tax Collection	Collection Rate Production Ton	Taxable[b] Tons	Tax Rate[c] Taxable Ton
1955	1,341	$ 78	$ .058		
1956	5,069	297	.059		
1957	6,812	397	.058		
1958	8,574	500	.058		
1959	8,414	528	.063		
1960	13,390	735	.055		
1961	13,187	766	.058		
1962	14,526	842	.058		
1963	16,701	972	.058		
1964	18,505	1,075	.058		
1965	19,004	1,104	.058		
1966	21,677	1,257	.058		
1967	24,311	1,427	.059		
1968	30,269	1,782	.059		
1969	33,410	3,778	.113		
1970	35,348	4,253	.120		
1971	33,778	5,539	.164		
1972	34,544	7,002	.203		
1973	41,829	10,159	.243		
1974	41,053	11,952	.291		
1975	40,809	30,347	.744		
1976	40,575	30,857	.760		
1977	26,372	48,891	1.854	37,759	$ 1.295
1978	49,545	69,394	1.401	49,614	1.399
1979	55,333	88,485	1.599	55,373	1.598
1980	43,060	87,179	2.025	50,296	1.733
1981	49,369	99,018	2.006	51,799	1.916
1982	23,445	80,305	3.425	38,624	2.078
1983	25,173	67,341	2.675	33,302	2.047
1984	35,689	64,514	1.876	35,689	2.107
1985	33,265	65,092	1.957	34,477	2.048
1986	25,451	48,658	1.912	31,468	1.900
1987	32,043	51,184	1.597	29,039	1.900
1988 Est.	40,000	57,728	1.432	32,364	1.900

a) Production tax collections are after all credits have been taken. (See footnote (2) on previous page).

b) The 1977 law was the first to apply the production tax rate against "taxable tons", the greater of the current year's production or the three-year average of production tons. Due to a negotiated settlement of court cases, the taxable tonnage for 1984 was the current year only. The taxable tonnage for 1985 was the average tonnage for 1984 and 1985. A three-year average is used for 1986 and beyond.

c) Average statutory tax rate.

TABLE 12

SUMMARY OF THE 1987 PRODUCTION TAX

Firm	Taxable Tonnage	Tax Rate	Total Tax Before Credits	Erie II Court Case Credits	School Bond Credits	Bankruptcy Adjustments	Net Tax Collected
Butler	317,492	$1.90	$ 603,235	$ 149,198	$ 38,444	$ -0-	$ 415,593
LTV Steel Mining Co.	5,289,930	1.90	10,050,867	-0-	-0-	-0-	10,050,867
Eveleth	3,293,528	1.90	6,257,703	233,373	-0-	-0-	6,024,330
Hibbing	5,875,551	1.90	11,163,547	286,269	-0-	-0-	10,877,278
Inland	1,916,017	1.90	3,640,432	137,226	-0-	-0-	3,503,206
National	4,254,856	1.90	8,084,226	392,709	93,213	-0-	7,598,304
Reserve	1,572,096	1.90	2,986,982	681,378	-0-	2,305,604	-0-
USX Corporation	7,733,466	1.90	14,693,585	1,437,694	541,343	-0-	12,714,548
TOTALS:	30,252,936	$1.90	$57,480,577	$3,317,847	$673,000	$2,305,604	$51,184,126

PRODUCTION TAX CREDITS RESULTING FROM THE ERIE II COURT CASE
PRODUCTION YEAR

Firm	1984	1985	1986	1987	1988 (est.)	TOTAL (est.)
Butler	$ 250,926	$ 165,856	$ 163,217	$ 149,198	$ -0-	$ 729,127
LTV Steel Mining Co.	1,319,237	780,864	768,442	-0-*	-0-*	2,868,543
Eveleth	324,161	259,429	255,302	233,373	223,900	1,296,165
Hibbing	397,307	318,230	313,168	286,269	274,648	1,589,622
Inland	230,102	152,547	150,120	137,226	131,655	801,650
National	678,702	436,553	429,608	392,709	376,767	2,314,339
Reserve	1,289,869	757,450	745,400	681,378	653,719	4,127,816
USX Corporation	2,435,547	1,598,209	1,572,784	1,437,694	1,379,335	8,423,569
TOTALS:	$ 6,925,851	$4,469,138	$4,398,041	$3,317,847	$3,040,024	$22,150,901

The credits consist of all interest to date plus one-fifth of the initial principal and will be paid back by not collecting that amount of money from each firm. The production year credits will be applied to the taxes payable in the following year. For example, the 1987 production year credits are applied to the taxes payable in 1988.

* Court case credits were used as part of LTV Steel Mining Company's bankruptcy settlement.

OCCUPATION TAX ON TACONITE, SEMI-TACONITE AND IRON ORE

INTRODUCTION

In 1921, the Minnesota State Legislature imposed a special tax, the occupation tax, upon "...every person engaged in the business of mining or producing iron ore or other ore in this state." The occupation tax generally resembles a corporate income tax.

In 1987, the Minnesota Legislature repealed the occupation tax in its present form, effective with production after December 31, 1989. The occupation tax will continue to exist, but it will be computed in the same manner as the Minnesota Corporate Franchise (Income) Tax which includes an alternative minimum tax. The corporate tax rate was reduced from 12% to 9.5%.

DETERMINATION OF VALUE OF ORE FOR PURPOSE OF TAX

The determination process consists of two major steps. The first step is the determination of the value of iron ore at the mouth of a Minnesota mine, the starting point for Minnesota's occupation tax. Because no published market price exists for ore at the mouth of a Minnesota mine, the value is calculated rather than directly set by the market. The value is determined by deducting expenses incurred beyond the mouth of the mine from the recognized and published market value of iron ore delivered to Lake Erie ports. In effect, this value is obtained by working backward from a Lake Erie port dock to the mouth of a Minnesota mine.

Expenses subtracted from the Lake Erie value of iron ore to arrive at the mouth of the mine value are known as Nonstatutory Deductions. These deductions are not specified by statute but result from administrative practice and court decisions regarding valuation. Included in this expense category are stockpiling and loading costs, transportation costs from the mine to Lake Erie ports, beneficiation (ore processing) costs, sales and use tax, and other miscellaneous expenses incurred beyond the mouth of the mine which are quoted in the Lake Erie value of ore.

The second step is the procedure of determining the value of ore for purpose of tax. Subtracted from the value of iron ore at the mouth of a Minnesota mine are certain expenses, specified by statute, called the Statutory Deductions. Included in the statutory deductions are:

1. Mining Costs: The reasonable cost of labor and supplies which must be paid to remove the ore and bring it to the surface.

2. Development Costs: All costs of clearing the land, removing the surface overburden (glacial drift), and removing any waste iron formation, or Virginia Slate, down to the first layer of mineable iron formation or taconite are capitalized as development. Thereafter, any waste or lean iron formation removed is expensed as a current mining cost. If magnetic taconite is mined beneath a previously mined natural ore mine, the waste iron formation above the first layer of mineable taconite shall be considered as development. The deferred development expense is deducted on a prorated basis per ton of crude taconite or pellets in the proportion of the current year's production to the total reserve. The computation may be made on either a crude ore or concentrate (pellet) basis, as long as the method is consistent from year to year.

3. Taxes: Natural ore producers are allowed the entire amount of ad valorem taxes levied and paid for the current year on unmined ore. For taconite, recent legislative changes now allow the full amount of all taconite production taxes paid during the current year. Previously, only a portion of the production tax, limited to $.25 per taxable ton, was allowed as a deduction.

4. Royalty Expense: Royalties accrued on tonnages mined or produced during the calendar year are allowed as a deduction. Minimum royalties on nonproducing properties which are not part of the reserve estimate for an active mine are not allowed until production occurs on that property. Minimum royalties on leases temporarily inactive but included in the reserve estimate for a producing property, are allowed in the year accrued.

5. Plant and Equipment Depreciation: Assets are classified into three categories for depreciation purposes:

a) Beneficiation Plant - All crushing and processing facilities and associated equipment. Also included in this category are tailings basins and power plants and substations serving plant facilities.

b) Standard Plant - All administrative offices, labs, shops and garages are Standard Plant assets. Shovels, drills and assets used either to move ore from the mine to the beneficiation plant or the finished product to railroad cars of a common carrier are included here.

c) Motorized Equipment - All trucks, autos, trailers, dozers, graders and rubber-tired and crawler-mounted cranes.

Taconite facilities are allowed a straight-line rate on the grouped assets of four percent per year for the beneficiation and standard plants and ten percent per year for motorized equipment. For natural ore producers, there is a five percent rate for beneficiation and standard plants with a ten percent rate for motorized equipment. Total depreciation is limited to 90 percent of the costs of all depreciable assets on hand at the end of the taxable year.

The above rates are required for each group of assets and accelerated depreciation methods are not allowed. Rules for capitalization of depreciable assets would follow federal guidelines.

6. Interest on Plant Investment: An allowance for beneficiation plant investment interest is allowed as a deduction. This deduction for interest expense does not have to be actually incurred and generally is limited to four percent of the undepreciated balance on the beneficiation plant investment on January 1 of the current year.

If actual interest expense incurred for beneficiation plant investment exceeds the four percent allowance, the interest allowed will be the actual amount paid up to, but not exceeding, six percent of the undepreciated balance for beneficiation plant. Except for this allowance, no other interest expense may be deducted.

After subtraction of the statutory deductions, a taxable value of ore is established.

Minnesota's occupation tax is somewhat more restrictive than a corporate income tax. Examples of non-allowable expenses are: contributions, depletion allowances, royalty taxes, loss carryovers and a portion of out-of-state administrative expense. A percentage of certain expenses, however, is allowable. Included are: legal fees, out-of-state administrative expense related to Minnesota operations, and other miscellaneous expense.

The occupation tax rate, initially six percent in 1921, has varied over the years. The rate was 15 percent for all ores mined or produced before January 1, 1986. Legislative changes reduced the rate to 14.5 percent for ores mined in 1986 and 14 percent for ores mined in 1987 and subsequent years.

OCCUPATION TAX CREDITS

Substantial credits are allowed against the occupation tax. Foremost of the various credits is a credit for high labor cost ores.

Beginning with 1985, both taconite and natural ore producers benefit from the labor credit which reduces the net effective occupation tax rate from 15 percent to a minimum of 6.75 percent. This rate decreased to a minimum of 6.25 percent in 1986 and 5.75 percent in 1987 and subsequent years. This net effective tax rate also applies to royalty taxes for operating mines. In addition, all ore producers are eligible for credits for investment in pollution control equipment and costs incurred for exploration and research on Minnesota ores.

Natural ore producers are also allowed a loss mine credit for mining costs exceeding the value of the ore. Small independent iron ore producers are allowed a discount credit for selling ore below the quoted Lake Erie Value of the ore. The discount credit was extended to ore stockpiled from previous years by the 1984 legislature.

1987 OCCUPATION TAX PAID OR REFUNDED

TACONITE COMPANY	NET EFFECTIVE RATE	1987 OCCUPATION TAX DUE	1987 REFUNDS
Eveleth Mines	5.75%	$ -0-	$ -0-
Hibbing Taconite	7.04%	3,802,066	-0-
Inland Steel	5.75%	-0-	-0-
LTV Steel Mining Co.	5.75%	1,553,806	-0-
National Steel	5.75%	-0-	14,594
USX Corporation	5.75%	-0-	-0-
TOTALS:		$5,355,872	$14,594

NATURAL ORE COMPANY			
LTV Steel Company	8.71%	$ 755,472	
Rhude & Fryberger	7.61%	33,460	
TOTAL:		$ 788,932	

TABLE 13

IRON ORE AND TACONITE PRODUCED IN MINNESOTA (THOUSANDS OF TONS) AND OCCUPATION TAX COLLECTIONS (THOUSANDS OF DOLLARS)

1955 - 1988*

	Iron Ore		Taconite		Totals	
Year	Tons Produced	Occupation Tax	Tons Produced	Occupation Tax	Tons Produced	Occupation Tax
1955	66,545	31,501	1,341	0	67,886	31,501
1960	44,042	20,655	13,390	638	57,432	21,293
1961	30,458	13,010	13,187	898	43,645	13,908
1962	30,543	11,276	14,526	1,108	45,069	12,384
1963	28,682	10,886	16,701	1,426	45,383	12,312
1964	30,636	12,921	18,505	1,658	49,141	14,579
1965	33,462	15,646	19,004	1,740	52,466	17,386
1966	32,601	15,545	21,677	1,898	54,278	17,443
1967	25,480	12,646	24,311	1,611	49,791	14,257
1968	21,893	10,802	30,269	1,807	52,162	12,609
1969	22,511	10,968	33,410	2,285	55,921	13,253
1970	21,172	9,278	35,348	3,161	56,520	12,439
1971	17,530	7,301	33,778	5,379	51,308	12,680
1972	14,439	6,376	34,554	3,659	48,993	10,035
1973	17,941	8,836	41,829	6,824	59,770	15,660
1974	17,654	9,698	41,053	10,092	58,707	19,790
1975	10,227	5,038	40,809	18,955	51,036	23,993
1976	9,494	6,480	40,575	18,270	50,069	24,750
1977	4,647	2,641	26,372	3,190	31,019	5,831
1978	5,905	3,937	49,545	19,266	55,450	23,203
1979	4,230	2,663	55,333	23,856	59,563	26,519
1980	2,221	1,000	43,060	13,808**	45,281	14,808
1981	1,664	1,232	49,369	12,708**	51,033	13,940
1982	789	719	23,445	3,348**	24,234	4,067
1983	851	499	25,173	7,386**	26,024	7,885
1984	850	442	35,689	29,915**	36,538	30,357
1985	1,465	394	33,265	9,907**	34,730	10,301
1986	1,122	343	25,451	6,233	26,573	6,576
1987	1,403	789	32,109	5,356	33,512	6,145
1988 Est.	1,100	750	40,000	3,500	41,100	4,600

* The years are production years, tax was assessed in the following year and collected on June 15.

** Adjusted by provisions of M.S. 298.40.

TABLE 14

OCCUPATION TAX REPORT AVERAGES ON A PER TON BASIS
TACONITE INDUSTRY ONLY

Year	Tons Produced (000 Tons)	Lake Erie Value	(1) Cost of Benefi-ciation	(2) Transpor-tation	Develop-ment	(3) Cost of Mining	Depreciation: Std. Plant & Motor Equip.	Admin. Expense	Misc.	Royalty	Taxable Value of Production	Occupation Tax Due
1971	33,778	17.408	6.922	4.421	.579	1.578	.289	.133	.221	.655	2.609	.159
1972	34,554	17.437	7.398	4.420	.665	2.019	.300	.148	.250	.657	1.569	.106
1973	41,829	18.304	7.018	4.719	.600	1.961	.267	.140	.220	.679	2.419	.163
1974	41,053	22.122	8.188	5.790	.737	2.142	.270	.150	.300	.818	3.648	.246
1975	40,809	28.846	9.720	6.835	.890	2.715	.330	.186	.435	.976	6.746	.464
1976	40,575	32.200	11.560	7.557	1.219	3.030	.470	.208	.570	1.077	6.496	.450
1977	26,372	34.827	17.816	8.075	1.415	4.116	.900	.440	.928	1.110	(.031)	.121
1978	49,545	37.080	14.950	8.710	1.497	3.827	.519	.310	.766	1.259	5.234	.388
1979	55,333	41.306	16.440	9.789	1.760	4.000	.516	.417	.880	1.320	6.166	.435
1980	43,060	46.365	21.181	10.627	2.006	4.556	.722	.587	.932	1.444	4.308	.321
1981	49,369	51.106	21.171	13.254	2.155	5.135	.646	1.202	1.003	1.704	4.835	.257
1982	23,445	53.946	31.339	12.600	2.212	5.290	1.357	3.002	1.438	2.078	(5.372)	.140
1983	25,173	56.178	26.862	12.982	1.485	4.088	1.229	3.097	1.721	1.831	2.883	.453
1984	35,689	56.480	20.107	13.025	1.997	3.760	.737	3.430	1.104	1.691	10.629	.838
1985	33,265	47.102[a]	19.533	13.012	1.568	3.660	.859	3.425	.974	1.654	2.417	.297
1986	24,017[b]	47.143	18.747	13.188	.902	3.754	.884	3.215	1.264	1.498	3.691	.259
1987	32,109	26.765[c]	15.774	.053	.556	4.407	.557	2.388	.996	1.281	.754	.167

(1) Cost of beneficiation is the total of lines 3, 6 and 7 from the occupation tax report.

(2) Transportation is the rail and lake transportation allowance from the occupation tax directives.

(3) Cost of mining is the total of lines 9A & 9B and line 13 from the occupation tax report.

a The Lake Erie Value was reduced from .869 to .725 per iron unit in 1985.

b The 1986 numbers do not include Reserve Mining, which ceased production in August, 1986 due to bankruptcy.

c The 1987 occupation tax changed the starting point from the Lake Erie Value (F.O.B. lower lake port) to a Mine Value (F.O.B. mine). This decrease in value includes about $13 per ton transportation, plus a decrease in the value per iron unit after May 1, 1987.

TABLE 15

OCCUPATION TAX REPORT PER TON COSTS
BENEFICIATION AND MINING -- TACONITE ONLY
(000'S Tons and Dollars)

	Tons Produced	Beneficiation Labor	Per Ton	Beneficiation Supplies	Per Ton	Beneficiation Depreciation & Interest	Per Ton	Beneficiation/ Miscellaneous Per Ton	Total Beneficiation Per Ton
1981	49,369	$232,195	$4.703	$583,411	$11.817	$197,150	$3.994	$.473	$20.987
1982	23,445	$153,361	$6.541	$366,730	$15.642	$188.239	$8.029	$.795	$31.007
1983	25,173	$158,209	$6.285	$325,389	$12.926	$184,617	$7.334	$.079	$26.624
1984	35,689	$112,415	$3.150	$419,708	$11.760	$173,211	$4.853	$.088	$19.851
1985	33,265	$106,804	$3.210	$372,156	$11.188	$156,363	$4.700	$.189	$19.287
1986	24,017	$ 64,990	$2.706	$259,928	$10.823	$116,637	$4.857	$.088	$18.474
1987	32,109	$ 70,993	$2.211	$314,491	$ 9.794	$112,667	$3.509	$.080	$15.594
Occ. Tax Report		Line 3A		Line 3B		Lines 3C & 3D		Line 3E	

	Tons Produced	Mining Labor	Per Ton	Mining Supplies	Per Ton	Cost of Mining	Mining Depreciation Per Ton	Total Mining Costs Per Ton
1981	49,369	$107,643	$2.180	$132,754	$2.689	$4.869	.646	$5.515
1982	23,445	$ 56,247	$2.399	$ 57,952	$2.472	$4.871	1.357	$6.228
1983	25,173	$ 49,284	$1.958	$ 44,428	$1.765	$3.723	1.229	$4.952
1984	35,689	$ 60,957	$1.708	$ 63,600	$1.782	$3.49	.737	$4.227
1985	33,265	$ 57,540	$1.730	$ 54,739	$1.646	$3.376	.859	$4.235
1986	24,017	$ 39,162	$1.631	$ 43,290	$1.802	$3.433	.884	$4.317
1987	32,109	$ 40,239	$1.253	$ 47,179	$1.469	$2.722	.556	$3.278
Occ. Tax Report		Line 9A		Line 9B			Line 9C	

All numbers not on Line 3 or Line 9 of the Occupation Tax Report are not reflected in this table.

M.S. 298.40 AND THE TACONITE AMENDMENT

Introduction

Minnesota Statute 298.40 and the Taconite Amendment to the Minnesota Constitution were passed by the voters in 1963 and 1964. These provisions limited the taxes imposed upon the then existing taconite producers and any new taconite producers through 1989. The tax limitations, however, will continue as long as M.S. 298.40 remains law even though the constitutional guarantee will expire in 1989.

Application of the Comparative Calculation

Three calculations are prepared according to: A) the laws of 1963; B) current year (Corporate Franchise) laws for a hypothetical Minnesota manufacturing corporation, and C) current year occupation tax laws. Calculations (A) and (B) are compared with the higher of these becoming the tax limitation. If the total taxes in (C) are greater than the limitation, then the difference is either not collected, or, if previously paid, refunded. The application of this provision follows:

THE COMPARATIVE CALCULATIONS ILLUSTRATED

(A) Laws of 1963	(B) Current Year Laws	(C) Current Year Laws
1) Occupation Tax 2) Royalty Tax	1) Corporate Franchise Tax or Alternative Minimum Tax on Taconite Facilities 2) Sales Tax Paid 3) Sales Tax Exempt for Taconite Only	1) Occupation Tax 2) Royalty Tax 3) Sales Tax
Total for Limitation Purposes	Total for Limitation Purposes	Total Taxes Limited by M.S. 298.40

Background

For several years, the State of Minnesota and taconite producers were involved in litigation resulting from differing interpretations of the taconite amendment. Although the State generally prevailed in the litigation, taconite companies paid taxes in excess of the limitation for some years. Prior to 1985, Minnesota law did not provide for occupation tax refunds. Accordingly, substantial credits due the mining companies resulted from application of M.S. 298.40.

At the end of F.Y. 1988 (June 30, 1988), credits still owed to the mining industry exceeded $11.0 million. Since 1981, an additional $46.2 million in taxes was not collected in order to repay credits owed to the taconiteindustry. For further detail on the credits and the taxes applied to offset these credits, see the M.S. 298.40 credit summary (Table 16).

Effects of Legislative Changes

The 1985 legislature authorized refunds of overpayments beginning with taxes payable in 1985. Because refunds were statutorily prohibited for prior years, credits for these years are adjusted by not collecting current occupation and sales and use tax due. Remaining credit balances are directly refunded through appropriations for one-half of the credit balance effective July 1, 1987 and one-half effective July 1, 1989.

Alternative Minimum Tax (AMT) - Changes to corporate tax laws in 1987 resulted in corresponding change to the hypothetical corporation tax component of the M.S. 298.40 limitation calculation. In addition to a rate reduction from 12 percent to 9 percent, an alternative minimum tax was imposed. For occupation tax purposes, the corporate limitation calculation was modified accordingly. The AMT (M.S. 290.092) is the excess of Minnesota property, payroll, and sales times .001 (one-tenth of one percent) over the regular Minnesota corporate franchise tax.

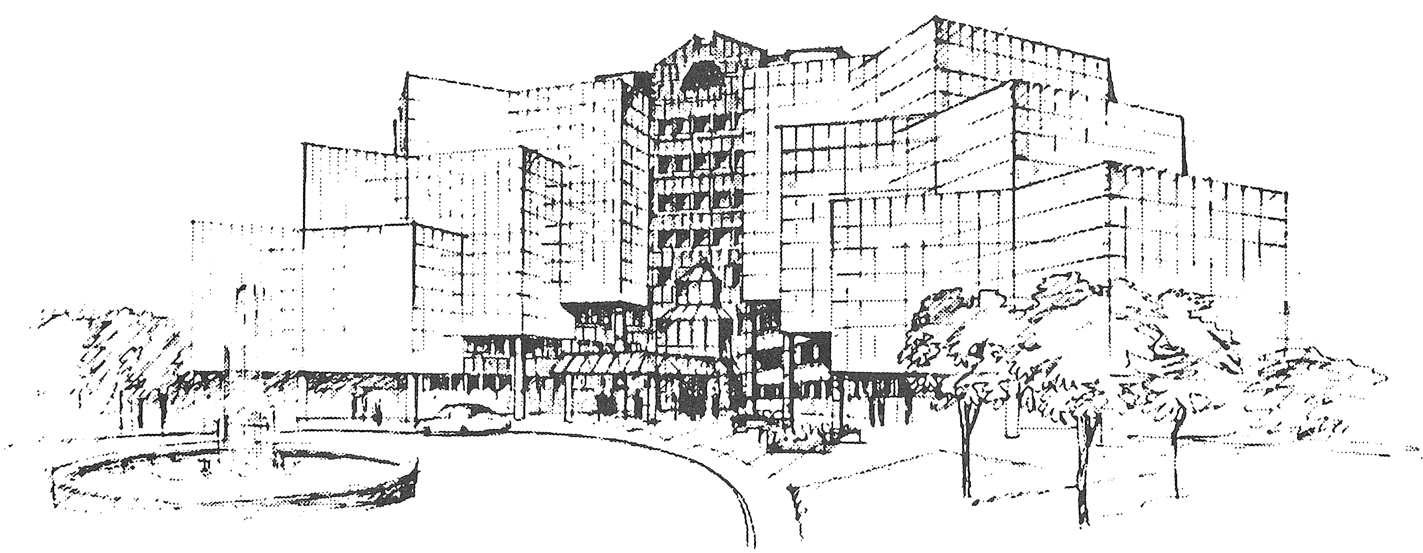
1. The property factor includes: 1) all land, buildings, machinery, and equipment, and 2) all inventories, production in process and all other real or tangible personal property actually used by the taxpayer during the taxable year. All capital assets are at cost adjusted for additions and retirements.

The inventory portion of the property factor includes all purchases of material used or consumed in the normal course of business. Examples include rods, ball, bentonite, limestone, all repair parts, coal diesel fuel, natural gas and taconite pellets.

2. The payroll factor is only the amounts of compensation paid directly to employees.

3. The sales factor includes sales made within Minnesota or destined to be received by a purchaser in Minnesota. For taconite producers, this factor generally is zero.

Three credits are allowed against the AMT: 1) enterprise zone credits, 2) the research and development credit, and 3) credit for estimated taxes paid. There is also a carryforward credit for AMT amounts exceeding the regular corporate tax.



MINNESOTA DEPARTMENT OF REVENUE
10 River Park Plaza
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TABLE 16 - M.S. 298.40 CREDIT SUMMARY

OCCUPATION TAX

	Tax Due Without M.S. 298.40 Limitation	Tax in Excess of M.S. 298.40 Limitation (Not Collected)[1]	Net Occupation Tax Due	Tax Applied to Prior Year M.S. 298.40 Credits (Not Collected)[2]	Actual Tax Collected	M.S. 298.40 Credit Due
1980	15,910,944	(2,103,345)	13,807,599	-0-	13,807,599	(2,792,456)
1981	17,175,966	(4,468,413)	12,707,553	(1,335,265)	11,372,288	(3,339,239)
1982	6,200,496	(2,852,661)	3,347,835	(3,347,835)	-0-	(2,829,758)
1983	11,401,855	(4,016,073)	7,385,782	(4,999,484)	2,386,298	(1,702,219)
1984	33,061,342	(3,145,988)	29,915,354	(19,309,767)	10,605,587	(1,775,324)*
1985	11,080,464	(1,173,776)	9,906,688	(5,836,545)	4,070,143	(2,217,174)*
1986	6,233,533	-0-	6,233,533	(367,787)	5,865,746**	(1,291,552)
1987	5,355,872	-0-	5,355,872	-0-	5,355,872	(14,594)
1988 est.	3,500,000	-0-	3,500,000	-0-	3,500,000	(50,000)

SALES AND USE TAX

	Tax Due	Less: Tax Applied to Prior Year M.S. 298.40 Credits (Not Collected)[3]	Actual Tax Collected
1982	7,246,363	(750,261)	5,496,102
1983	5,765,048	(2,613,605)	3,151,443
1984	7,110,166	(4,283,181)	2,826,985
1985	6,476,570	(4,216,360)	2,260,210
1986	4,890,472	(2,399,142)	2,491,330
1987	5,286,947	(1,827,482)	3,459,465
1988 Est.	7,000,000	(1,000,000)	6,000,000

RAILROAD GROSS EARNINGS TAX

	Tax Due	Less: Tax Applied to Prior Year M.S. 298.40 Credits (Not Collected)[4]	Actual Tax Collected
1983	926,207	(640,512)	285,695
1984	1,678,295	(1,678,295)	-0-
1985	1,985,441	(795,979)	1,889,462
1986	1,670,756	(815,194)**	855,562
1987	1,404,961	-0-	1,404,961
1988 Est.	1,451,305	-0-	1,451,305

* This amount refunded when occupation tax due.

** Pre-petition bankruptcy liability not collected: Railroad Tax Total; Occupation Tax $583,557

1	1980-1987 Occupation Tax exceeding M.S. 298.40 limitation (not collected)	$17,760,256	
2	1981-1987 Occupation Tax applied to M.S. 298.40 credits (not collected)	$35,196,683	$53,718,908
3	1982-1987 Sales Tax applied to M.S. 298.40 credits (not collected)	$15,139,328	
4	1983-1987 Railroad Tax applied to M.S. 298.40 credits (not collected)	$3,382,897	

AD VALOREM TAX ON UNMINED NATURAL IRON ORE

Since 1909, Minnesota's natural iron ore reserves have been estimated and assessed by the state for ad valorem tax purposes. The actual ad valorem tax levy is set by the county, the school district, and the local township or municipality. The tax levy is collected by the county auditor.

A Minnesota Supreme Court decision in 1936 established the present worth of future profits method for valuing the iron ore reserves. This is accomplished through the use of a complex formula known as the Hoskold Formula. The Formula takes into account ore prices and all the various cost factors in determining the value of the unmined ore.

The Department uses a five-year average for allowable costs taken from the occupation tax report each year. A five-year average of the Lake Erie Market Value of iron ore is also used. These averages are used to help reduce fluctuation of value due to sudden cost-price changes.

The following expenses are allowed as a deduction from the Lake Erie Market Value on the computation of present worth (Hoskold Formula):

- 1a. Mining, normal costs
- 1b. Mining, special costs
- 2. Beneficiation
- 3. Miscellaneous (property tax, medical insurance, etc.
- 4. Development (future)
- 5. Plant and Equipment (future)
- 6. Freight and Marine Insurance
- 7. Marketing Expense
- 8. Social Security Tax*
- 9. Ad Valorem Tax (by formula)
- 10. Occupation Tax
- 11. Federal Income Tax
- 12. Interest on Development, Plant and Working Capital

*1987 - Social Security Tax is no longer identified as a separate expense, now included under Miscellaneous.

These twelve allowable expense items are deducted from the Lake Erie Market Value to give the Estimated Future Income (per ton). It should be noted that although royalty is allowable as an occupation tax deduction, it is not allowable on Minnesota's ad valorem tax.

The present worth is then determined by multiplying the estimated future income (per ton) by the Hoskold Factor. The Department presently allows a 12 percent risk rate and 6 percent safe rate which yields the .33971 Hoskold factor when used with a 20-year life. A 20-year life has been used since 1968 as representative of the remaining life of Minnesota's natural iron ore reserves. The resulting value is considered to be Market Value by the Department of Revenue.

The final step in determining the assessed value is to apply the statutory assessment ratio (50 percent for iron ore, 43 percent for other minerals). For iron ore, the resulting rate per ton is multiplied by three to determine the value of unmined ore as specified by M.S. 273.1104.

The 1988 legislature enacted substantial property tax reform beginning with taxes payable in 1989. The new law starts with market value and applies a statutory classification percentage to obtain "tax capacity". In the case of iron ore, this percentage is 5.25 percent. The statutory 5.25 percent is then multiplied by three as per M.S. 273.1104. Thus, the effective tax capacity percentage for iron ore is 15.75 percent. The tax capacity is then normally multiplied by the "tax capacity rate" to determine the tax, providing that no unique reductions apply to the particular taxing district.

Since 1963, the Revenue Department has tried to maintain all ores on the tax rolls, including the uneconomic, underground, and unavailable classifications. A schedule of minimum rates was established in 1963 and major revisions were made in 1974, 1986 and 1988. The "Market Values" for iron ores which do not show a value with the Hoskold Formula are determined from the schedule of minimum rates.

Effective on January 2, 1988 for taxes payable in 1989, a new schedule of minimum rates expressed as Market Value was adopted by the Department. The previous schedule which had been in effect since January 2, 1986 did not fully reflect current conditions in the iron ore industry. The new schedule listing "Market Value" per ton is listed as follows:

MINIMUM RATES

Open Pit Uneconomic	Ore Classification	Market Value/Ton (Cents)
(Stripping ratio less than five-to-one)	Wash Ore Conc. (WOC or OPC)	4.0
	Heavy Media Conc. (HMC)	3.0
	Low Grade (OPPRC)	1.0
Underground Uneconomic		
(Stripping ratio greater than five-to-one)	Underground Conc. >60% Fe (UGC)	.8
	Underground Conc. <60% Fe (UGC)	.6
	Underground Heavy Media (UGHM)	.5
	Low Grade (UGPRC)	.3

Open pit ores which are too high cost to show a value with the Hoskold Formula are assigned minimum values from the open pit classification. Underground and uneconomic ores with stripping ratios exceeding five to one are assigned minimum values from that classification. Thus, the market value for underground wash ore with an iron content of less than 60 percent would be calculated as follows:

Number of Tons x .6-Cents/Ton = Market Value

The tax would then be determined using the tax capacity formulas explained previously. A record of iron ore ad valorem taxes assessed since 1976 is listed as follows:

YEAR PAYABLE	COUNTY	LOCAL	TOTAL
1976	1,860,429	2,599,476	4,459,905
1977	1,741,437	2,298,178	4,039,615
1978	1,838,862	2,401,434	4,240,296
1979	1,920,313	2,483,562	4,403,875
1980	2,193,940	2,149,087	4,343,027
1981	1,783,461	1,905,607	3,689,068
1982	1,713,271	2,057,006	3,770,277
1983	1,561,778	1,982,895	3,544,673
1984	1,591,852	2,107,723	3,699,575
1985	1,446,983	1,879,307	3,326,290
1986	1,289,693	1,746,880	3,036,573
1987	1,131,162	1,494,979	2,626,141
1988	915,475	1,456,794	2,372,269

According to the provisions of M.S. 273.1104, a public hearing to review the valuations of unmined iron ore shall be held on the first secular day following the 10th day of October. This hearing provides an opportunity for representatives of the mining companies and taxing districts to formally protest any of the ore estimates or valuation procedures which they believe to be incorrect. In addition, current conditions and future trends in the iron ore industry are discussed.

Iron ore ad valorem taxes are expected to continue their long decline with a substantial drop occurring in two to three years when the Donora orebody is exhausted.

GROSS EARNINGS TAX ON TACONITE RAILROADS

Every company owning or operating a taconite railroad shall pay annually into the state treasury a sum of money equal to 3.75 percent of the gross earnings derived from the operation of such taconite railway within the state. The gross earnings shall be the sum of money equal to the amount which would be charged under established tariffs of common carriers for the transportation of iron ore from the Mesabi Range to ports at the head of Lake Superior. The direct rail freight rate for taconite is taken from the Occupation Tax Directive.

Natural ore that is shipped on a taconite railroad uses the direct rail freight rate for natural ore that is also taken from the Occupation Tax Directive. If coal or other commodities are transported, the gross earnings shall be calculated using the same direct rail rate as that which applies to taconite.

Effective January 1, 1990, the taconite railroad gross earnings tax will be eliminated. At that time, taconite railroads will be subject to the same tax provisions as other railroads, including the property tax, which will be payable in 1991. The tax currently applies to LTV Steel Mining Company (formerly Erie Mining Company) and LTV Steel Company only. It is due twice a year in six-month increments:

PERIOD COVERED	DUE
January 1 - June 30	On or before September 1
July 1 - December 1	On or before March 1

They must submit a report with their payment containing such information as the number of tons shipped, freight and handling rates, taxable earnings, transportation of other commodities, track mileage in each taxing district, and a summary of taxable earnings. Prior to 1978, the revenue from the gross earnings tax on taconite railroads was deposited in the State's general fund and distributed to the various taxing districts in which such railroad operations were conducted as follows:

City, Village or Town	22%
School District	50%
County	22%
State	6%
	100%

The first three accounts were distributed to individual taxing districts based on the location of terminal facilities and trackage. Beginning in 1978, the amount of the 1977 distribution to the first three accounts was frozen and the distribution made from the taconite production tax. The revenue collected from the gross earnings tax on taconite railroads is now allocated 100 percent to the state general fund.

Calendar Year	Tax	M.S. 298.40 Offset (Tax Not Collected)	Total Tax Collected
1980	$2,983,819	-0-	$2,983,819
1981	$4,960,605	-0-	$4,960,605
1982	$1,354,173	-0-	$1,354,173
1983	$ 926,207	$ 640,512	$ 285,695
1984	$1,678,295	$1,678,295	-0-
1985	$1,985,441	$ 795,979	$1,889,462
1986	$1,670,756	$ 815,194*	$ 855,562*
1987	$1,404,961	-0-	$1,404,961
1988 (Est.)	$1,451,305	-0-	$1,451,305

*Not collected. Pre-petition bankruptcy liability.

ROYALTY TAXES

In 1923, the Minnesota legislature passed a royalty tax law providing for a six percent tax on any royalties received. Since that time, the gross tax rate has exactly followed the occupation tax rates. Prior to 1959, no labor credits were allowed. The 1923 law assessed the tax against the royalty recipient, but because of the terms of mining leases, the courts have ruled that the lessee was responsible for payment of the tax. This was affirmed by both the Minnesota and United States Supreme Courts in a series of rulings beginning in 1926.

Currently, all royalty taxes are collected from the lessee. Royalty is defined as any amount in money or value of property received by any person having any right, title or interest in or to any tract of land in this state for permission to explore, mine, take out and remove ore therefrom. Royalties can include rents, bonus payments, option to purchase payments, non-recoverable lease payments, etc.

Who is liable for the royalty tax -- lessor or lessee -- is determined by the language written in the lease. If the lessor is liable, M.S. 299.08 requires the lessee to withhold the amount of the tax from payments made to the lessor. If the lessee is liable according to the terms of the lease, the tax is in addition to the royalty paid to the lessor. Regardless of who is liable, all royalty tax will be remitted to the Commissioner of Revenue by the lessee. Royalty tax payments are due when royalty payments are made to the recipients. However, it is possible to remit an annual royalty tax payment. This method has proven to be more convenient for exploration companies.

The present tax on royalties received in connection with the exploration and mining of taconite and semi-taconite is 14 percent. A credit which reduces the 14 percent tax rate to the net effective tax rate for occupation taxes is allowed for taconite and semi-taconite royalty taxes on land that is being actively mined. This credit also applies in cases where the minimum royalty is, in fact, a prepaid royalty specified in the terms of the mining lease. In most cases, the net effective occupation tax rate for taconite is 5.75 percent.

The royalty tax rate on the exploration and mining of iron ore is 14 percent. The same labor credits apply to mining iron ore as to mining taconite. This means the net effective rate may be reduced to a minimum of 5.75 percent if the cost of labor meets or exceeds the necessary amount.

State-owned leases are not subject to royalty tax. All royalty tax revenue is deposited in the general fund and is not earmarked for any specific distribution.

Effective after December 31, 1986, the royalty tax on all other minerals was repealed. The royalty tax on taconite, semi-taconite and iron ore was repealed for royalties paid after December 31, 1989. After that date, mining royalties will be subject to the same withholding provisions as other income.

The royalty tax is not in lieu of personal income tax on royalties. Resident and nonresident recipients (individuals, partnerships, and corporation) of royalties are subject to state income tax in the same manner as if the royalty income were from rents or other business activities in the State of Minnesota.

For those who file a Minnesota Income Tax Return, royalty must be included as income. For those nonresident royalty recipients who have not filed a return, income received from Minnesota--including royalty--must be reported.

<u>Minnesota Income Tax Filing Requirements</u>

The Minnesota tax liability of part-year and nonresidents is computed by first calculating the tax as if they were full-year residents and then multiplying the tax by a fraction, the numerator of which is the taxpayer's Minnesota source income and the denominator being the federally adjusted gross income. Rents and royalties are included as Minnesota income.

For more specific income tax filing requirements, contact: Minnesota Department of Revenue at 1-800-652-9094 or (612) 296-3781. Send written inquiries to: Minnesota Department of Revenue, Income Tax Division, P. O. Box 64452, St. Paul, MN 55146.

TABLE 17
IRON ORE, TACONITE & OTHER ORE*, ROYALTY TAX

Year	Iron Ore Royalty Tax (000's)	Taconite Royalty Tax (000's)	Other Ore Royalty Tax (000's)	Total Revenue (000's)
1975	$998	$2,657	2	$3,657
1976	686	2,841	2	3,529
1977	748	2,626	2	3,376
1978	894	3,280	21	4,195
1979	807	4,775	34	5,616
1980	713	4,619	22	5,355
1981	429	5,392	44	5,866
1982	619	4,093	13	4,725
1983	445	2,821	13	3,279
1984	536	4,564	7	5,107
1985	359	3,650	4	4,013
1986	208	2,436	3	2,647
1987	352	1,959	N/A	2,311
1988 (est.)	300	2,392	N/A	2,692

* Other Ore may include Copper-Nickel, Base or Precious Metals, or any other mineral on which royalty is paid.

TABLE 17A
ROYALTY COST PER TON OF PELLETS PRODUCED

	1965	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987
Butler	N/A	0.714	1.139	1.815	1.859	2.023	1.766	1.743	1.954	0.000	0.000
Erie (LTV)	0.266	0.314	0.954	1.749	1.807	2.152	2.400	2.161	2.289	2.144	1.897
Eveleth	N/A	0.949	2.218	3.578	3.885	3.751	3.553	3.312	3.333	2.808	2.472
Hibbing	N/A	N/A	N/A	0.875	1.198	1.301	1.492	0.521	1.209	1.104	0.928
Inland	N/A	N/A	N/A	1.212	1.222	1.528	1.694	1.829	1.801	1.613	1.604
National	N/A	0.549	0.974	1.525	1.695	1.764	1.734	1.821	2.001	1.825	1.648
Reserve*	1.126	1.120	1.919	2.820	3.338	3.482	3.321	3.372	3.087	0.882	0.000
USX-Minntac	N/A	0.000	0.171	0.288	0.302	0.153	0.294	0.334	0.334	0.277	0.268
Industry Average:											
Weighted:	0.743	0.587	1.019	1.454	1.750	2.026	1.714	1.693	1.647	1.471	1.288
Arithmetic:	0.763	0.729	1.229	1.732	1.913	2.019	2.111	1.886	2.001	1.521	1.469

*Reserve's royalty costs per ton are based upon shipments, not production.

SALES AND USE TAX

Imposition of the sales and use tax became effective on August 1, 1967. Both natural ore mining and taconite facilities are subject to this tax, just as are other manufacturing businesses.

"Sales" and "Use" taxes are essentially identical. The sales tax is assessed by the vendor at the time of the sale of tangible personal property; the use tax is imposed on the use, storage or consumption of tangible personal property which was purchased without sales tax having been assessed.

The current rate of tax is six percent, having been increased from five percent on January 1, 1983. All Sales and Use Tax revenue is deposited in the General Fund and is not earmarked for any specific distribution.

The 1987 Minnesota Legislature expanded the Sales and Use Tax to areas not previously covered. Some of the new areas are:

Services such as cleaning, laundry, lawn care, security

Non-prescription drugs such as aspirin, antacids, burn remedies, first-aid products, eye preparations

Custom computer software

Interstate calls

Fuels for non-highway use

The industrial production exemption, M.S. 297A.25, subd. 1(h) allows industry to exempt items from Sales and Use Tax that are used or consumed in the production of personal property intended to be sold ultimately at retail, whether or not the item so used becomes and ingredient or constituent part of the property produced. Items included in the exemption are chemicals, fuels, petroleum products, lubricants, packaging materials, electricity, gas and steam. Explosives, a major item for the mining industry are exempt under the "chemical" classification.

The accessory tool exemption is also available to all manufacturing-type businesses. The provision, M.S. 297A.25, subd. 1(h), as amended January 1, 1974, defines exempt accessory tools, as separate detachable units, used in producing a direct effect on the product and having a useful life of less than twelve months. Shovel dipper teeth, cat ripper teeth, cat and grader blade cutting edges, drill bits and reamers are examples of this type of exemption.

Currently, there is just one exemption unique to the taconite industry not available to the natural ore facilities or other Minnesota concerns. Under M.S. 297A.25, subd. 1(o), liners are exempt from the Sales and Use Tax. Examples of some of the items covered under this exemption are chute and bin liners, pump liners, wear plates and rubber lining materials.

Effective July 1, 1984, the sales and use tax rate on capital equipment purchased for new or expanding industries was reduced from six percent to four percent. Purchasers who pay tax to the vendor as well as holders of direct pay permits must pay or assess the six percent rate and then file a claim for refund with sufficient documentation to the State for the two percent difference.

Only two claims for refund can be filed per year but they can be for more than one purchase. The exemption does not apply to the purchase or lease of machinery or equipment to replace existing items, repair or replacement parts or machinery or equipment used to extract, receive or store raw materials. After August 1, 1985, if additional qualifying criteria is met, a full six percent refund of the sales and use tax can be obtained.

The Minerals Tax office has the responsibility of insuring compliance by the iron ore industry with the Sales and Use Tax Law. In the interest of better administrative control, the Revenue Department does authorize Direct Pay Permits to any concern which supports extensive and varied purchase inventories.

Every taconite company has elected this system of self-assessment of use tax on taxable purchases. To insure the integrity of the various systems of self-assessment, the Minerals Tax office utilizes auditing and monitoring procedures for each company on a continuous basis.

A review of the sales/use tax revenue generated annually by the iron ore industry clearly establishes that the totals are substantial amounts, and are of major ranking of all tax revenues paid by the mining industry.

In previous Minnesota Mining Tax Guides, the sales and use tax revenue generated figures shown were on the cash basis of accounting. For consistency throughout the Guide, the sales and use tax after 1980 have been changed to the accrual method of accounting.

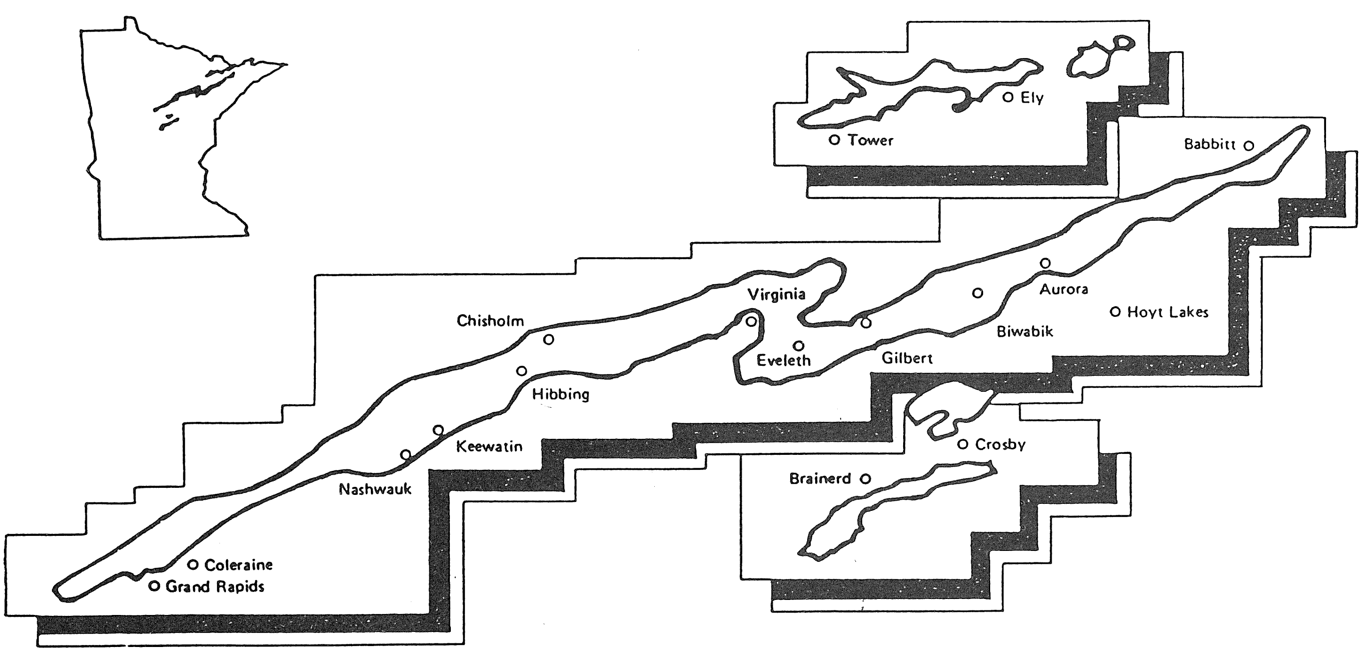
SALES AND USE TAX COLLECTIONS

YEAR	SALES TAX	M.S. 298.40 OCCUPATION TAX OFFSET (TAX NOT COLLECTED)	SALES TAX COLLECTED
1975	$ 7,214,111	-0-	$ 7,214,111
1976	7,446,168	-0-	7,446,168
1977	7,375,115	-0-	7,375,115
1978	8,573,835	-0-	8,573,835
1979	12,590,481	-0-	12,590,481
1980	9,231,156	-0-	9,231,156
1981	10,535,427	-0-	10,535,427
1982	7,338,653	750,261	6,588,392
1983	5,808,237	2,613,605	3,194,632
1984	7,110,166	4,283,181	2,826,985
1985	6,476,570	4,216,360	2,260,210
1986	4,890,472	2,399,142	2,491,330
1987	5,286,947	1,827,482	3,459,465
1988 (Est.)	7,000,000	1,000,000	6,000,000

Sales Tax Rate History

August 1, 1967	3%
July 1, 1974	4%
July 1, 1981	5%
January 1, 1983	6%

MINNESOTA'S IRON MINING AREA



M.S. 298.26 TAX ON UNMINED TACONITE

A tax not exceeding $10.00 per acre may be assessed upon the taconite or iron sulfides in any 40-acre tract from which the production of iron ore concentrate is less than 1,000 tons.

The heading on M.S. 298.26 is somewhat misleading in that it refers to a TAX ON UNMINED IRON ORE OR IRON SULFIDES. The tax clearly applies to unmined taconite and has been administered in that manner. The wording "iron ore" does not refer to high-grade natural ore in this instance.

The tax, as presently administered, applies to all iron formation lands on the Mesabi Range. The statutory exemption administered by the county assessor provides that in any year in which at least 1,000 tons of iron ore concentrates are produced from a 40-acre tract or governmental lot, said tract or lot are exempt from the unmined taconite tax. The county assessors have also exempted actual platted townsites that are occupied.

The iron formation lands on the Mesabi Range are divided into two categories by the engineering section of the Minerals Tax Office. This is done through the evaluation of exploration and mine planning data submitted by the mining companies.

The categories are listed as follows:

1. Those lands which are underlain by magnetic taconite of sufficient quantity and grade to be currently economic.

2. Lands either not believed or not known to be underlain by magnetic taconite of currently economic quantity and grade.

Lands in the first category have been appraised by the Minerals Tax office as having a value of at least $500.00 per acre. An assessment rate of 43 percent applies to unmined taconite. Therefore, through application of the above rates, all lands in Category 1 would yield $10.00 per acre in tax at a $500.00 market value using currently existing mill rates in St. Louis County.

Lands in Category 2 are assigned a nominal value of $25.00 per acre for the unmined taconite mineral rights. These lands were taxed at $1.00 per acre prior to 1977. The Category 2 lands have been placed on the tax rolls at an assessed value of $25.00 times 43 percent, and the actual amount of the tax per acre will vary between taxing districts depending on the mill rate. The low mill rate districts may be less than $1.00 per acre, while some high mill rate districts may exceed $2.00 per acre. (Note: The property tax laws were changed during 1988. All of the details are not known at this time. Call your county assessor for more information).

TABLE 18 - UNMINED TACONITE TAX (YEAR PAYABLE)*

County	1983	1984	1985	1986	1987	1988
Itasca	32,690	34,741	34,485	36,123	**	**
St. Louis	252,011	296,228	286,904	360,546	384,697	392,614
Totals:	284,701	330,969	321,389	396,669	384,697	392,614

*Taxes payable may not be actual amount collected.
**Itasca County decided not to collect the Unmined Taconite Tax.

TAX ON SEVERED MINERAL INTERESTS

Severed mineral interests are those mineral interests that are owned separately from the title to surface interests in real estate. Severed mineral interests are taxed under Minn. Stat. SS272.039, 272.04, and 273.165, subd. 1 at 25-cents per acre per year times the fractional interest owned. The minimum tax on any mineral interest (usually 40-acre tracts or government lots) regardless of the fractional interest owned, is $2 per tract. No tax is due on mineral interest taxes under other laws relating to the taxation of minerals, such as unmined taconite or iron ore, or mineral interests exempt from taxation under constitutional or related statutory provisions.

The severed mineral tax is a property tax that is levied by local taxing authorities in the same manner as other local property taxes. Proceeds from the tax are distributed as follows: 80 percent is returned to local taxing districts where the property is located in the same proportion that the mill rate each local taxing district bears to the total surface mill rate in the area, and 20 percent to the Indian Business Loan Account in the State Treasury for business loans to Indians by the Indian Affairs Council under Minn. Stat. S116J.64 (1986).

The tax on severed mineral interests was enacted in 1973 as part of an act that required owners of these interests to file a document--with the county recorder where the interests were located--describing the mineral interest and asserting an ownership claim to the minerals. The purpose of this requirement was to "identify and clarify the obscure and divided ownership conditions of several mineral interests in this state," Minn. Stat. S93.52. Failure to record severed mineral interests within time limits established by the law results in forfeiture to the state, Minn. Stat. S93.55. In 1979, the Minnesota Supreme Court ruled that the tax, the recording requirements,and the penalty of forfeiture for failing to timely record were constitutional, but also ruled that forfeiture procedures were unconstitutional for lack of sufficient notice and opportunity for hearing. This decision is cited as Contos, Burlington Northern, Inc. U.S. Steel, et al. v. Herbst, Commissioner of Natural Resources, Korda, St. Louis County Auditor, Roemer, Commissioner of Revenue, and the Minnesota Chippewa Tribe, et al., 278 N.W. 2d 732 (1979). The United States Supreme Court refused to hear an appeal requested by one of the plaintiffs. In 1979, shortly after this decision, the Minnesota Legislature amended the law to require notice to the last owner of record and a court hearing before a forfeiture for failure to timely record becomes complete. Under these requirements, court orders have been obtained by the state in several counties declaring the forfeiture of particular severed mineral interests to be complete, and giving title to the state. In 1988, the Legislature amended the law to allow the Commissioner of Natural Resources to lease unregistered severed mineral interests before entry of the court order determining the forfeiture to be complete. However, mining may not commence under such a lease until the court determines that the forfeiture is complete.

In a later case, separate from the Contos case cited above, the Minnesota Supreme Court ruled in 1983 that severed mineral interests owned by the Federal Land Bank of St. Paul were exempt from the state severed mineral tax under a federal law exempting Land Bank real estate taxes from local property taxes. The following table is a summary of revenues from the severed mineral tax from 1981 - 1988:

Year	Total Collections[1] of Affected Counties	Payment to Indian Business Loan Account
1982	535,552	107,110
1983	482,009	96,402
1984	438,738	87,748
1985	528,310	105,662
1986	424,474	84,897
1987	373,320	74,664
1988	503,940	100,788

[1] In 1986, a survey was taken of all county auditors requesting information on a calendar year basis. A total of 51 of the 87 counties reported collections. One additional county reported making its first collection in 1987.

TAXES ON OTHER MINING AND/OR EXPLORATION

Base Metals	Precious Metals	Energy Minerals
Copper, Nickel, Lead, Zinc, Etc.	Gold, Silver, Platinum Group	Coal, Oil, Gas Uranium

The 1987 Legislature approved a significant reform of the state's mining tax laws, particularly those tax laws relating to all other minerals. All specific taxes on copper-nickel mining were repealed. The tax laws effective for 1987 and all subsequent years detailed in the remainder of this section apply to copper-nickel as well as all other minerals.

TABLE 19

APPLICABLE TAXES FOR BASE & PRECIOUS METALS

	Pre-1987 Laws	New Laws
Occupation Tax:	Yes 14.5% Less Credits	Yes. 9.5% same as Corporate Income Tax
Corporate Income Tax:	No	No
Ad Valorem Tax (On Value of Ore Reserves)	Yes	No Repealed
Ad Valorem Tax (Smelter & Plant Facilities)	Yes	Yes
Severed Mineral Interest:	Yes	Yes
Royalty Tax:	Yes	No Repealed
Production Tax:	No	No
Sales & Use Tax:	Yes	Yes
Net Proceeds Tax:	No	Yes (2%)

OCCUPATION TAX-CORPORATE INCOME TAX

The Minnesota Constitution, Article X, Section 2 mandates that the state impose an occupation tax on the business of mining. In order to meet this constitutional requirement, the Occupation Tax shall be computed in accordance with the Minnesota Corporate Franchise (Income) Tax beginning with 1987.

The Corporate Income Tax, as changed by the 1987 Legislature, has been reduced from 12% to 9.5% and an alternative minimum tax of .01% (1/10th of 1%) of the total property, payroll and sales has been added. The effective corporate tax rate for a base or precious metals mine is expected to be about three percent because of the income allocation for out-of-state sales. The three percent rate could vary somewhat depending upon the impact of the allocation formula. For more information on the Alternative Minimum Tax, refer to the Occupation Tax, M.S. 298.40 where the property, payroll and sales factors are explained in more detail.

AD VALOREM TAX

Possibly the most significant change made in the reform of the state's mining tax laws was the removal of any ad valorem tax on the value of minerals other than taconite or iron ore. The removal of this tax on ore reserves is expected to further encourage the current interest in exploration for base and precious metals. Companies mining any of the above minerals would be subject to the property tax like any other business, i.e., on the value of the land and buildings only.

Machinery such as pumps, motors, grinding mills, etc., is considered personal property and not subject to ad valorem tax. In 1987, the St. Louis County Assessor indicated that new industrial buildings were valued at $25 to $30 per square foot for ad valorem tax purposes. Mill rates are set by the county, local communities, and school districts according to statute, and the tax is administered and collected by the county.

The 1988 legislature enacted a comprehensive property tax reform beginning with taxes payable in 1989. Each classification of property will have a tax capacity based on its market value times tax capacity percentage. The number of classifications of property was reduced. The new property tax formula will tend to reduce property taxes in previously high mill rate areas. Most of the relief will go to non-homestead, commercial, and industrial property which was often highly taxed under the previous formula. Many of the rural counties with mineral exploration potential are high mill rate areas which will receive substantial property tax relief.

There are some special rules and policies which apply to copper-nickel prospecting and mining leases issued by the Department of Natural Resources. DNR Rules 6 MCAR 1.0094C state that the prospecting permit covers the first two years of the lease. The Commissioner of Revenue has advised all county auditors and assessors that copper-nickel prospecting and mining leases issued by the Department of Natural Resources constitute a taxable interest in real estate. However, the Commissioner further advised that due to the limited nature of the lease interest, the ad valorem tax should not exceed $.25 per acre during the exploration stage. It is possible for the exploration period to extend beyond the initial two-year period. You will have to contact the Department of Natural Resources to determine the status of any leases remaining in effect beyond the initial two-years. Specific terms of the leases may vary, but the tax is to be determined based upon the number of acres made available to the lessee and the fractional interest, if any, that is leased.

ROYALTY TAX

The Royalty Tax on other minerals has been repealed. Beginning 1-1-90, it is required that all persons or companies paying royalty begin to withhold Minnesota income tax from their royalty payments and remit the withholding tax and applicable information to the State of Minnesota, Department of Revenue. Forms and instructions will be provided prior to 1-1-90.

SALES & USE TAX

All firms involved in the mining or processing of minerals will be subject to the six percent Sales and Use Tax on all purchases, except those that qualify for the Industrial Production Exemption. This exemption covers items that are used or consumed in the production of personal property to be sold ultimately at retail. Classification of items included in this exemption are chemicals, fuels, petroleum products, lubricants, packing materials, electricity, gas and steam. Significant items qualifying under this exemption are explosives, drill bits, grinding rods and balls, crusher and grinding mill liners. New or expanding businesses may qualify for a refund of all or part of the Sales and Use Tax they paid on purchases of capital equipment. For more information, contact the Minerals Tax office.

NET PROCEEDS TAX

The Net Proceeds Tax is imposed on the mining of all ores and minerals except for sand, silica sand, gravel, building stone, crushed rock, limestone, granite, dimension granite, dimension stone, horticultural peat, soil, iron ore and taconite. The tax is two percent of the net proceeds from mining such ores. Net proceeds are defined as the gross proceeds from mining less deductions. The net proceeds tax is effective for taxable years beginning after December 31, 1986. The tax is due on June 15 of the year succeeding the calendar year of the report.

If the minerals are sold in an arms-length transaction, the gross proceeds are the proceeds from the sale. If the minerals are used by the taxpayer or disposed of in a non-arms-length transaction, such as shipments to a wholly owned subsidiary or transactions between affiliated companies, then the gross proceeds are determined as follows:

-- The price of the mineral is the average annual price in the Engineering and Mining Journal. If there is no average annual market price for the mineral, then an arithmetic average of the monthly or weekly prices of the mineral in the Engineering and Mining Journal is used. If the mineral is not listed in the Enginerring and Mining Journal, then another recognized published price determined by the Commissioner of Revenue is used; and

-- The price, as determined above, is multiplied by the amount of the mineral credited or paid for by the smelter. Any special smelter charges are deducted and the resulting amounts are the gross proceeds for calculating the tax.

Allowable Deductions

The deductions from gross proceeds allowed are the amounts actually paid for:

-- Labor, including wages, salaries, fringe benefits, unemployment and workers' compensation insurance.
-- Machinery, equipment and supplies, including sales and use tax, except items subject to depreciation are deductible only as depreciation.
-- Transportation of the minerals if the expense is included in the sale price.
-- Administrative expenses inside Minnesota.
-- Expenses of exploration and development within Minnesota incurred prior to production, but only if amortized and deducted over the first five years of production.

The carryback or carryforward of deductions is not allowed.

Non-Allowable Deductions

Deductions specifically not allowed are:

-- All sales, marketing and interest expense.
-- All insurance expense and taxes, except as specifically allowed.
-- All administrative expense outside Minnesota.
-- Any research expense prior to production.
-- Any reclamatioon expense incurred after production ends.
-- Royalty expenses, depletion allowances and the cost of mining land.

Distribution

The net proceeds tax on minerals or energy resources extracted within the taconite tax relief will be distributed to cities, towns, and counties included in the taconite tax relief area.

The net proceeds tax on minerals or energy resources extracted outside the taconite tax relief area is deposited in the state general fund.

Sample Form

A sample form is included on the next page, based on estimated production costs.

Additional information concerning the tax, distribution or sample form is available from the Minerals Tax Office.

Example

MINNESOTA NET PROCEEDS TAX REPORT

ON MINING OPERATIONS OF ABC Mine

FOR THE CALENDAR YEAR 19<u>88</u>

REPORT ITEM

1. CRUDE TONS PRODUCED (to Mill)	250,000 Tons	
2. GROSS PROCEEDS		$ 22,500,000
ALLOWABLE DEDUCTIONS:		
3. BENEFICIATION COST		
A. Labor	$ 1,200,000	
B. Supplies	$ 1,200,000	
C. Plant Depreciation	$ 900,000	
D. Miscellaneous	$ 150,000	
4. DEVELOPMENT	$ 2,000,000	
5. MINING COST		
A. Labor	$ 6,750,000	
B. Supplies	$ 2,500,000	
C. Depreciation on Mine Plant & Equipment	$ 600,000	
6. ADMINISTRATIVE EXPENSE	$ 500,000	
7. MISCELLANEOUS	$ 250,000	
8. SMELTING	$ 600,000	
TOTAL DEDUCTIONS:		$ 16,650,000
NET PROCEEDS:		5,850,000
TIMES 2%:		2%
TAX DUE:		$ 117,000

Note: Example based on a 1,000 tons per day underground mine using cut and fill stopping with a 2,000-foot production shaft. Costs are estimated using Model Number U9 and other information from MINING COST SERVICE published by Western Mine Engineering.

TABLE 20 -- ACTIVITY SCHEDULE FOR MINING INDUSTRY TAXES

JANUARY	FEBRUARY	MARCH	APRIL
-- Ad Valorem Tax Reports mailed to companies. -- Ad Valorem estimates submitted by companies (January - June). 31 -- Quarterly royalty checks and reports from companies usually received in January, April, July and October.	1 -- Royalty Paid Report by companies due. 1 -- Royalty Received Report from recipients due. 1 -- Taconite Tax Report due from companies. 1 -- Taconite Production Tax determinations mailed to companies within one week. 15 -- Ninety percent payment of the Taconite Production Tax due in county offices. 25 -- Distribution of the Taconite Production Tax by counties (collected on February 15).	1 -- Railroad Gross Earnings Report and payment due for July to December of previous year. 1 -- Occupation Tax Report due from companies. 15 -- Taconite Production Tax final 10% tax figure with adjustments mailed to companies.	1 -- Owner or lessee of mineral rights submits specific data on drill hole logs and lab tests during previous year for Unmined Taconite Tax. 15 -- Final Taconite Production payment due in the county offices.
MAY	**JUNE**	**JULY**	**AUGUST**
1 -- Tentative Determination for Occupation Tax mailed by the Division. 15 -- If a disagreement exists, a formal written protest to the Tentative Determination must be filed. 15 -- Formal hearing held, if necessary. 15 -- Final Taconite Production Tax aid payments made to taxing districts by the counties. 15 -- Ad Valorem Tax Reports due from mining companies.	1 -- Final Occupation Tax Determination mailed to companies. 14 -- Full Occupation Tax payment due. 30 -- Recertification of Royalty Tax paid mailed to mining companies.	15 -- Taconite Referendum distribution of Taconite Production Tax made by the counties. 15 -- Additional Royalty Tax assessed due in Minerals Tax Office.	
SEPTEMBER	**OCTOBER**	**NOVEMBER**	**DECEMBER**
1 -- Railroad Gross Earnings Report and payment due for January to June. 15 -- Ad Valorem Tax present worth estimated mailed to companies. 15 -- Taconite Municipal Aid account funds distributed.	10 -- Taconite Production Tax estimates due from companies. -- Hearing on Ad Valorem mineral taxes held first secular day after October 10.	1 -- Ad Valorem Tax final adjustments to property equalization sheets to county assessors.	1 -- Minerals Tax office submits Unmined Taconite Tax Reports to county assessors. 30 -- Occupation Tax forms mailed to companies. 30 -- Royalty Paid Tax Report forms mailed to companies. 30 -- Royalty Received Reports mailed out.

MINNESOTA MINERALS RELATED AGENCIES

The Minerals Coordinating Committee (MCC) was organized in 1975 by the Legislative Commission on Minnesota Resources (LCMR). It was formally established by state law in 1987. This committee was formed to focus on expanding and making optimal use of existing facilities. The members that make up this committee are the Minerals Division of the Department of Natural Resources (MDNR), Minnesota Geological Survey (MGS), the Minerals Resource Research Center (MRRC), and the Natural Resources Research Center (NRRI).

The Minerals Division, now part of the MDNR, was formed in 1889. It manages the state's 10 million acres of mineral rights, three million acres of peatland, and has statewide regulatory responsibility on public and private land. It leases state mineral lands and manages programs to encourage exploration and development, and to enhance the value of Minnesota minerals. These activities generate income for trust funds, general fund, local governments, etc. To encourage leasing, it conducts mineral potential surveys to develop regional target areas, and provides data for land management decisions. With the exception of reclamation studies, it is not a research organization. It has, however, a strong interest in setting research priorities.

The NRRI established in 1983, is part of the University of Minnesota, Duluth branch. Its mission is to foster the environmentally sound use of Minnesota's natural resources through research, technology and business development, and through information transfer. The capabilities of the Institute's Minerals Division include: 1) minerals processing, process assessment, and process development; 2) geologic studies emphasizing geochemistry, ore deposit modeling, and resource evaluation; 3) mining, with an emphasis on mine planning, economics, and evaluation, and 4) a growing research capability in industrial minerals and remote sensing/biogeochemistry.

The MRRC established in 1911, is part of the University of Minnesota, Minneapolis, and has a legislative mandate for education and research related to the wise development of mineral resources. Research functions range from mineral characterization to process metallurgical engineering. Much of its work is oriented toward identifying processing methods and development new ways to extract value from mineral occurrences. While it has primary interest in Minnesota's resources, its mission covers fundamental aspects of mineral science and engineering that contribute to national and international knowledge. Its research program also serves as a training medium for the development of skilled minerals engineers.

The mission of the MGS established in 1872, is to undertake and promote the scientific study of Minnesota's geology, and to make the results available to the public. As a research and service arm of the University of Minnesota, MGS conducts basic and applied earth sciences research to elucidate the geology of Minnesota for the benefit of its citizens. MGS works to provide a scientifically sound geologic framework for the state that can be used to further investigations in mineral resources, engineering geology, and environmental geology. This objective is accomplished mainly through the preparation of reports and geologic maps at various scales, using data and interpretive insights from direct field study, geophysics, geochemistry, and test drilling.

STATE OF MINNESOTA TO ISSUE UPDATED MESABI RANGE MAP SET

(New set based on original maps issued by Great Northern Iron Ore Properties)

A new set of maps covering the Mesabi iron range will soon be available to the general public as well as governmental units and mining and exploration companies. The maps are being prepared as a joint effort, with funding from the Minnesota Departments of Revenue and Natural Resources, Iron Range Resources & Rehabilitation Board, Range Association of Municipalities and Schools, and St. Louis and Itasca counties. The base maps being used for this project are the U.S. Geological Survey Quadrangle maps with 1 inch equaling 2000 feet each covering an area 6 by 8-1/2 miles (18-1/2 by 25-inch sheets).

These maps are based on a series prepared originally by Great Northern Iron Ore Properties, with the first edition published in 1934 containing 27 uncolored maps each covering an area of 1-1/2 by 4 miles, or 10 square miles, totaling 270 square miles. The total area extended from Grand Rapids to Babbitt on the Mesabi Iron Range.

In 1939, the second edition containing 30 maps in color was published and was reissued in both 1945 and 1950. During 1954, the fourth edition and final edition containing 30 maps appeared, and in 1959 the fourth and final edition was completely updated and consisted of 50 maps. All of the maps covered 10 square miles.

The new set of maps to be issued by the state of Minnesota in 1989 show the status of the taconite mining industry including pits, stockpiles, tailing ponds and related information. Also noted on the 4-color maps are changes in highways, railroads, gas and oil pipelines, major power lines, recreation trails and lake accesses, and municipal and school district boundaries. The St. Louis county portion of the maps includes parcel code number that will enable user to more easily obtain ownership and tax information from the county auditor's or assessor's office. The maps will also aid communities, developers and industrial planners in fitting their plans into the existing topography and developments.

The specific area covered by these new maps extends from east of Babbitt across the Mesabi range through Hoyt Lakes, Aurora, Eveleth, Virginia, Hibbing and Grand Rapids to Deer River. The 35 quadrangle maps needed to cover this area will be updated to January 1, 1986.

The full map atlas with index map, legend, and title page including imitation leather cover will be priced at $159, including sales tax. Individual maps at $3 each including sales tax will be available prior to completion of the atlas, which is targeted for early in 1989. An additional charge for postage and handling will apply to mail orders. The maps and atlases will be available from Mesabi Map Project, Minerals Tax Office, 612 Pierce Street, Eveleth, MN 55734, or phone (218) 744-5364.

MESABI MAP ATLAS ORDER BLANK

MAIL ORDER TO:
Mesabi Map Project
Minerals Tax Office
612 Pierce Street
Eveleth, MN 55734
218-744-5364

Name ______________________
Address ____________________
City _______________________
State ______________________
Zip ________________________

Full Map Atlas with Index Map, Legend and Title Page with Choice of Cover
(includes Sales Tax) $159.00

Individual quadrangle maps can be purchased separately. For more detailed information regarding the individual maps, contact the above address or call 218-744-5364.

Number of Copies	Cost
____ Full Map Atlas	$ ______
___Brown Cover	
___Black Cover	
____ Shipping & Handling (5.00 each)	$ ______
Total Amount:	$ ______

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MINERALS AND MINING
Government Agencies

MINNESOTA DEPARTMENT OF REVENUE
Minerals Tax Office
612 Pierce Street - Eveleth, MN 55734 (218) 744-5364

DONALD H. WALSH, Manager - Audit, Administration
JOHN B. RIOUX, Revenue Auditor - Occupation Tax
NORMA BRUSACORAM, Revenue Auditor - Occupation Tax/Accounts Payable
BILL O'BRIEN, Revenue Auditor - Sales & Use Tax
MARY JO GRAHEK, Secretary
THOMAS W. SCHMUCKER, Administrative Engineer - Production Tax, Valuations
WILLIAM F. BETZLER, Mesabi Map Project
SANDRA D. GORRILL, Revenue Examiner - Royalty Tax, Gross Earnings Tax
ROBERT A. WAGSTROM, Computer Programs, Mining Engineer

IRON RANGE RESOURCES AND REHABILITATION BOARD
Eveleth, MN 55734 (218) 744-2993

JACK DeLUCA, Commissioner
ORLYN J. OLSON, Director, Mineland Reclamation

MINNESOTA DEPARTMENT OF NATURAL RESOURCES
500 Lafayette Road - St. Paul, MN 55146 (612) 296-8157

JOSEPH A. ALEXANDER, Commissioner
BILL BRICE, Director, Division of Minerals

Minerals Division
1525 3rd Ave. E. - Hibbing, MN 55746 (218) 262-6767

ROGER JOHNSON, Manager, Engineering and Operations
ARLO KNOLL, Manager of Reclamation
RICHARD C. HEMMERSBAUGH, Manager of Operations

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56 East River Road - Minneapolis, MN 55455 (612) 373-3341

KENNETH J. REID, Professor & Director
IWAO IWASAKI, Professor, Mineral Processing/Hydrometallurgy

MINNESOTA GEOLOGICAL SURVEY
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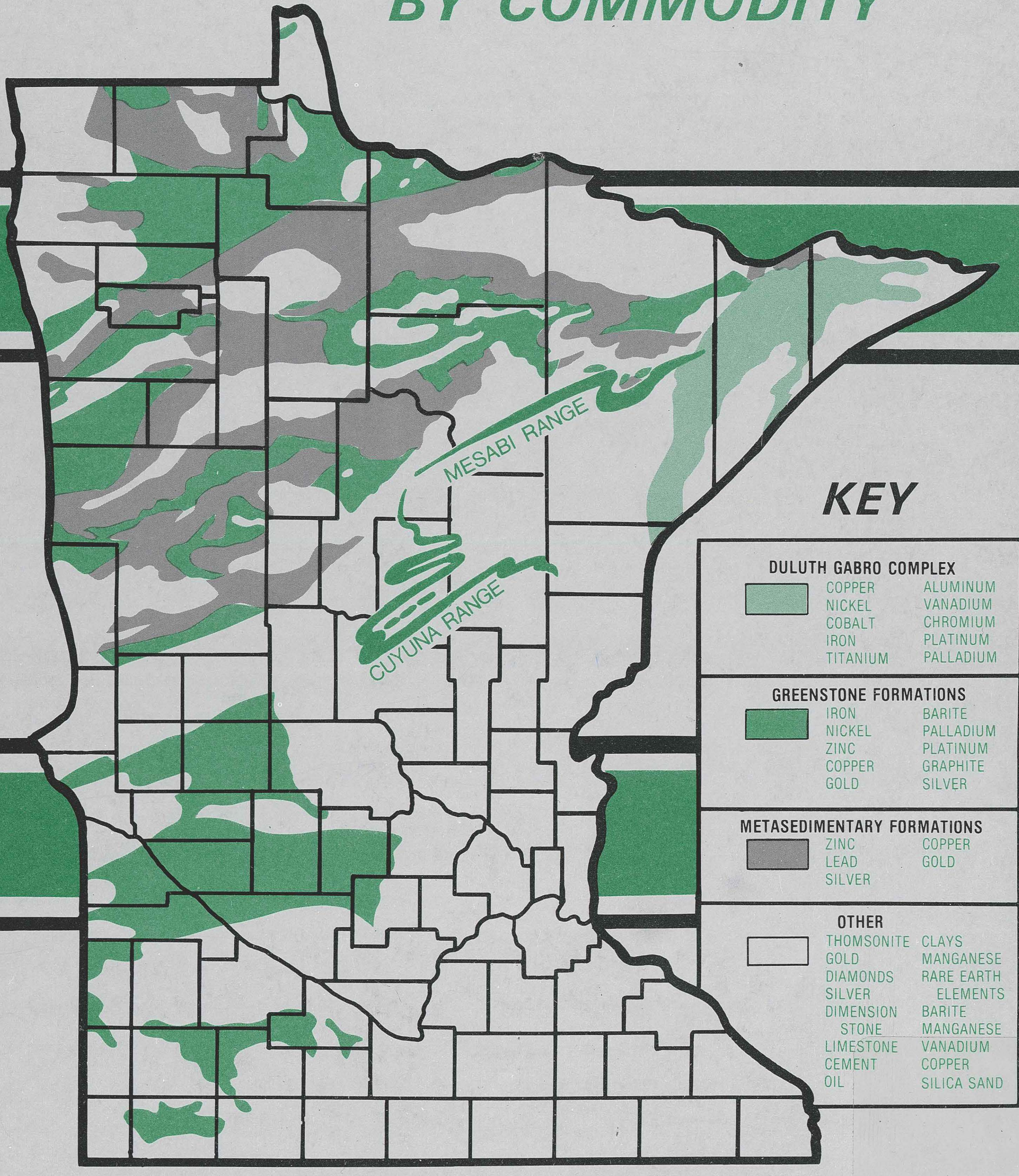
2642 University Avenue - St. Paul, MN 55114 (612) 627-4780

PRISCILLA GREW, Director

NATURAL RESOURCES RESEARCH INSTITUTE
University of Minnesota, Duluth
3151 Miller Trunk Highway - Duluth, MN 55811 (218) 726-6138

MICHAEL LALICH, Director
THYS B. JOHNSON, Director, Center for Applied Research and Technology Division
RODNEY L. BLEIFUSS, Assistant Director, Minerals Division

EXPLORATION ACTIVITY BY COMMODITY



A deposit could occur at any location within these areas. The indicated potentials are those currently being considered by industry but do not include all possibilities.